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Demystifying the complexity of institutional change from the commune system to the household responsibility system in contemporary China: a micro–meso–macro analytical framework

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Abstract: Understanding institutional diversity, particularly institutional change, enables us to explain varied economic performance over time and improve future outcomes. A clear grasp of dynamic institutional processes is essential for addressing urgent social and environmental challenges, with the potential to enhance well-being and reduce poverty. However, much of political economy remains rooted in Western experiences. A key task is to model institutional change in developing and transitional economies, where outcomes have varied widely. This paper applies the micro–meso–macro analytical framework developed by Dopfer *et al*. (2004) in evolutionary economics to examine institutional change from the Commune System (CS) to the Household Responsibility System (HRS) in contemporary China. This framework overcomes the limitations of the micro–macro divide in classical and neoclassical economics, as well as the narrow focus on state-versus-peasant relations in comparative political science. We also draw on insights from new institutional economics, legal and historical institutionalism, and other social sciences to deepen understanding of institutional transition. We argue that the transformation was neither purely a bottom-up nor a top-down economic response but the result of interactions among peasants, local officials, and central authorities. Political construction and economic efficiency are best understood as interrelated dimensions of institutional change.

Keywords: institutions; institutional change; institutional diversity; China; Commune System; Household Responsibility System; evolutionary economics; political economy

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1. Introduction

Societies construct a wide range of institutions, including private for-profit, governmental and community-based organisations. These operate across multiple levels and can generate both productive and innovative outcomes, as well as destructive and perverse effects (North, 1990, 2005; Ostrom, 1990, 2005; cf. Ostrom, 2010). Institutional change can lead to better or worse outcomes (Ostrom and Basurto, 2011). To understand the variety of challenges and complexities arising from human interactions in modern societies, and to explore the diversity and evolution of institutions, it is essential to develop and apply more nuanced analytical tools such as frameworks, theories and models to empirical research (Wilson, 2002; Schmid, 2004).

Since the emergence of the new political economy, which involves the application of new institutional economics to political settings, academic attention has concentrated largely on the United States and other developed countries. An important research task is therefore to develop models that reflect the political realities of developing countries and former Eastern European states. As North emphasises, 'A pressing research need is to model third world and Eastern European polities' (North, 1994, 366).

This paper seeks to unpack the complexity of institutional change from the Commune System (CS) to the Household Responsibility System (HRS) in contemporary China, with a specific focus on the evolution of agricultural rules, given the centrality of the concept of rules in the analysis of institutions (Hodgson, 2004). It seeks to challenge existing interpretations that attribute this change solely to economic efficiency or to purely bottom-up or top-down processes, proposing instead a more nuanced understanding of institutional diversity and transformation. The main argument is straightforward. The transition from the CS to the HRS resulted from overlapping interactions among peasants, local officials, multi-level governments, particularly provincial leaders, and central authorities. It was a socially and politically

constructed process shaped by struggles over legitimacy, ideological conflict, shifts in belief, and political contestation, rather than being the inevitable result of purely economic calculation.

However, we insist that it is equally mistaken to deny the economic gains resulting from the transition from the CS to the HRS. It was the strong economic performance of the HRS that helped dismantle the ideological argument that production and accounting at the level of the production team was 'socialist', whereas household-based production and accounting was not. Since the 1950s, there has been a dichotomy between private and public goods, with the former produced through private property and markets, and the latter produced by governments and public ownership (Samuelson, 1954; cf. Ostrom, 2010). Furthermore, this dichotomy has often been equated with the distinction between socialism and capitalism (Demsetz, 2002). It is ironic that both the political left and right have adhered to the same formula. Mao Zedong, the then Chinese paramount leader, regarded family-based production as the 'capitalist road' and production-team-based production as the 'socialist road'. (Jin, 2013). Deng later questioned this understanding of socialism. For him, the traditional belief that the CS represented socialism while the HRS represented capitalism was potentially mistaken. As he later stated: 'Socialism means eliminating poverty. Pauperism is not socialism, still less communism' (Deng, 1984, 2-3).

This paper contributes to ongoing debates on how authoritarian systems adapt, how institutions evolve in practice, and how theories derived from Western experience can misinterpret socialist or hybrid regimes. In particular, it applies Dopfer *et al*.'s (2004) micro–meso–macro framework from evolutionary economics to the case study, challenging the dualistic macro–micro perspective prevalent in classical and neoclassical economics. It also critiques the state-versus-peasants (or society) framework commonly employed in comparative political science.

Since the founding of the Chinese Communist Party (CCP) in 1921, there have been three major transformations in property rights over rural arable land under its leadership (Meng, 2018a: Ch. 4–6; Meng, 2019). The first occurred in the early 1920s with the promotion of the 'land to the tiller' programme, marking a transition from feudal landownership to peasant private property. The second shift involved the abolition of peasant private ownership and the establishment of collective ownership during the collectivisation campaign from 1953 to 1956 (Mao, 1955), culminating in the CS from 1956 to 1978 and the consolidation of full collective control. The CS aimed to eliminate exploitation through collective ownership and to boost agricultural productivity by achieving economies of scale (Mao, 1958, 1959; Eisenman and Yang, 2018). The third transformation began in 1979 with decollectivisation and the introduction of the HRS, which restored a range of use rights to peasant households while retaining collective land ownership and redistribution mechanisms. This final shift is the focus of this study.

In August 1958, the Central Committee of the Chinese Communist Party (CCP) declared: 'The people's commune will be the best organisational form for building socialism and gradually transitioning to communism. It will develop into the basic unit of future communist society' (Office of the National Agricultural Committee, 1981: 72). Mao Zedong described the

commune as ‘public and big’, framing it as a step towards communism. In March 1961, Mao oversaw the drafting of the ‘Work Regulations for Rural People’s Communes’, commonly known as the ‘Sixty Articles on Agricultural Work’. These were adopted at a working conference held by the CCP Central Committee between 21 May and 12 June. This document became foundational to the CS, reflecting Mao’s will. His vision was implemented, even if it was arguably mistaken and led to unintended consequences.

The commune was structured across three organisational levels: production team, production brigade, and commune, with the production team functioning as the basic unit of production and accounting (see Table 1 in the appendix). At the time, the dominant belief was that more public ownership was preferable, and that larger organisational forms would be more efficient. This rationale drove the upward consolidation from production team to brigade, and ultimately to the commune (Wu 2016).

The commune system aimed to eliminate exploitation and achieve common prosperity. However, a substantial gap emerged between intention and outcome (North 2005, p. 3). The egalitarian grain distribution system embedded in the CS weakened incentives, leading to stagnation and decline in agricultural productivity. Between 1952 and 1978, agricultural output grew at an average annual rate of only 2.6 per cent, which lagged behind the population growth rate of 2.8 per cent (Lin 1992). Output allocation based on work points discouraged effort and further entrenched inefficiency. Between 1956 and 1978, agricultural output grew by just 2.9 per cent annually. By 1977, the growth rate of per capita income had dropped to 0.5 per cent, increasing only from 103 yuan in 1957 to 113 yuan two decades later (Penny and Wong 1985: 111, 293). By the mid-1970s, over one-third of urban grain consumption relied on imports. Rural incomes remained extremely low (see Table 2 in the appendix). In 1978, per capita income was just 154 US dollars—less than one third of the average across Sub-Saharan African countries at the time (Lin 2013, 259).

In light of the government’s stated aim of achieving food self-sufficiency, ‘the Cultural Revolution [1967–1976] agricultural policy must be judged a failure’ (Penny and Wong 1985: 3). Ultimately, the CS produced its own gravediggers. The turbulence from 1958 until Mao’s death highlights the inherent challenges in constructing a new institutional framework capable of functioning effectively. In understanding the process of institutional change, North writes: ‘The key to understand the process of change is the intentionality of the players enacting institutional change and their comprehension of the issues’ (North, 2005: 3). The failure of institutional change and the resulting rare and episodic economic growth can be attributed to these two aspects: ‘because the players’ intentions have not been societal well-being or the players’ comprehension of the issues has been so imperfect that the consequences have deviated radically from intention’ (North, 2005: 3). This also applies to Mao’s collectivisation campaign and his two disastrous movements: the Great Leap Forward and the Cultural Revolution.

This is not surprising given the international intellectual context. As Elinor Ostrom (2010) notes, many scholars adhere to a simplified model in which the world is divided into two categories: public goods are produced by the state through public ownership, and private goods are produced by private actors through the free market. Even more problematically, the former

is equated with socialism and the latter with capitalism (see, for example, Demsetz, 2002). Ironically, both the left, represented by figures such as Mao, and the right, represented by thinkers like Harold Demsetz, adhere to this same formula. Mao Zedong regarded collectivisation as socialism and viewed decollectivisation as capitalism. As early as 1962, Mao asked: 'Do we want socialism or capitalism? Do we want collectivization or decollectivization?' (quoted in Pang and Jin, 2003: ch. 30; cf. Xu, 2013). Later that year, the Tenth Plenum of the Eighth Central Committee (24 to 27 September 1962) reinforced this position, declaring: 'Throughout the entire history of the proletarian revolution and the dictatorship of the proletariat, and throughout the entire transition from capitalism to communism (a process requiring several decades or even longer), there exists a class struggle between the proletariat and the bourgeoisie, and a struggle between the two roads: socialism and capitalism' (Central Committee of the Chinese Communist Party, 1962). This represents a false and misleading dichotomy.

Mao, as the principal architect of policy decisions, had such an imperfect understanding of the issues that the outcomes deviated significantly from his original intention of building socialism and achieving common prosperity for the people, reflecting the profound difficulty of constructing workable new institutions. Deng Xiaoping later reflected that China's understanding of socialism had been deeply flawed. He famously stated: 'We didn't fully understand what socialism is. Poverty is by no means socialism. Socialism means developing the productive forces' (Deng, 1984b: 140). This insight reinforces the view that meaningful socialism presupposes the development of productive forces, a principle directly relevant to interpreting the HRS in China.

This period also witnessed two major national catastrophes. The first was the Great Famine, triggered by the Great Leap Forward in 1958. The second was the chaos and political turmoil caused by the Great Proletarian Cultural Revolution, which began in 1966 and lasted until 1976. Both campaigns were initiated by Mao Zedong, the top leader of the Chinese Communist Party (CCP). Although the precise death toll from the famine, which began in the winter of 1959 and lasted until 1961, remains the subject of scholarly debate, estimates range from seventeen to thirty million (see, for example, Ashton *et al*., 1984; Banister, 1987; Coale, 1981; Peng, 1987; Yao, 1999; cf. Meng *et al*., 2015). It is widely accepted that this was the largest famine in human history. It is also considered one of the most important factors contributing to the eventual decollectivisation of agriculture (Yang, 1996). While the causes of the famine were complex, including natural disasters and policy failures, government policies were undoubtedly a significant contributing factor (Dikötter, 2010; Meng, Qian, and Yared, 2015).

Liu Shaoqi, then the second most senior leader in the Chinese Communist Party (CCP) and Chairman of the Central Government of the People's Republic of China, famously concluded that the famine was '30 per cent natural disaster and 70 per cent man-made disaster' (quoted in Sun, 2007; cf. Deng, 1998). Mao disagreed. Confronted with the devastating consequences of the famine, Liu reportedly told Mao, 'History will record the role that you and I played in the starvation of so many people, and the cannibalism will also be memorialised' (quoted in

Wang, Liu et al., 2000: 90; cf. Yang, 2012: 15). During the Cultural Revolution, Liu was labelled the ‘number one capitalist roader’ and was ultimately persecuted to death.

Deng Xiaoping, who had worked with Liu to mitigate the damage caused by the Great Leap Forward and to restore agricultural production, stated, ‘The masses should also be allowed to adopt whatever mode they see fit, legalising illegal practices as necessary’ (Deng, 1962). He was branded the ‘number two capitalist roader’ and was sent to work in a factory in Jiangxi Province. Reflecting on this period, Deng later remarked, ‘Without the great revolution there would have been no reform and opening up’ (Deng, 1986, 1987). He also recalled, ‘Then in 1966 came the “cultural revolution”, which lasted a whole decade, a real disaster for China. During that period many veteran cadres suffered persecution, including me’ (Deng, 1987).

Indeed, Deng Xiaoping emerged as a far-sighted politician, having learned from the disastrous Great Leap Forward, an episode in which he was partly complicit, and the destructive Cultural Revolution, during which he, like many colleagues with similar views, was a victim. After regaining power, he was determined to lift China out of poverty, famously asserting that ‘development is the hard truth’ (Deng, 1992).

It is necessary to highlight Deng Xiaoping’s vision and China’s achievements under his leadership prior to explaining the institutional change from the Commune System to the Household Responsibility System in detail. Deng aimed to quadruple China’s economy within 20 years, implying an average annual growth rate of 7.2 per cent, a target widely regarded as unattainable in the 1980s and early 1990s. Following his vision, the Chinese government set clear, phased economic objectives in 1987: first, to double the 1980 GNP and ensure basic food and clothing needs were met, achieved by the end of the 1980s; second, to quadruple the 1980 GNP by the end of the 20th century, achieved in 1995 ahead of schedule; and third, to raise per-capita GNP to the level of medium-developed countries by the mid-21st century, thereby achieving broad-based well-being and modernisation (China.org.cn, 2011).

Over the subsequent three decades, China’s annual GDP growth averaged 9.8 per cent, while international trade grew by 16.6 per cent per year. By 2012, China had become an upper middle-income country with a per-capita GDP of US$6,100, lifting more than 600 million people out of poverty. Its trade dependence ratio reached approximately 50 per cent, the highest among the world’s large economies. In 2009, China overtook Japan as the world’s second-largest economy and became the largest exporter of merchandise, demonstrating both its role as a driver of global development and as a stabilising force in the world economy, as seen during the East Asian Financial Crisis and the recent global financial crisis. As Lin (2013, 259) observes, China’s economic development since the transition from a planned to a market economy in 1979 has been ‘miraculous’.

In particular, the introduction of the HRS led to a marked improvement in agricultural performance, with output growing at an average annual rate of 7.7 per cent between 1978 and 1984 (Ministry of Agriculture Planning Bureau, 1989: 112–115, 146–149, 189–192; Ministry of Agriculture, 1989: 28, 34; cf. Lin, 1993: 35; see Appendix, Table 1). Following the

institutionalisation of the HRS, China entered a sustained period of rapid economic development that has continued for more than four decades. This transformation was accompanied by substantial rises in living standards and a large-scale reduction in poverty (Dollar, 2007; Ravallion, 2009; Whyne, 1986).

As such, important lessons may be drawn from this institutional shift for addressing core challenges in development policy and institutional reform. The transition from the collective system (CS) to the household responsibility system (HRS) marked the beginning of China's reform era, a change of profound historical and economic significance (Wu, 2016). As North (2005, 159) observed, 'Starting with the household responsibility system, the Chinese developed an incentive structure which managed to produce rapid economic development without any of the standard recipes of the West.' This highlights how China's distinctive institutional innovations challenged conventional development theories. North further argued, 'It should be emphasised that the institutions that have emerged in the Western world, such as property rights and judicial systems, do not have to be faithfully copied in developing countries. The key is the incentive structure that is created, not the slavish imitation of Western institutions' (North, 2005, 159).

The structure of the paper is as follows. Section 2 outlines the current challenges in studying the institutional transition from the CS to the HRS and considers appropriate theoretical and methodological frameworks drawn from the literature. The subsequent four applied sections adopt the meso-micro–meso–macro framework developed by Dopfer *et al*. (2004) to analyse the evolution of the HRS. Section 3 examines the broader political environment for rural reform in Anhui Province, representing the meso level at which rule change enables micro-level innovation. In this section, we argue that it was Wan Li's reform policy that created the political and social environment which emboldened peasant experimentation, including the secret agreement made by the Xiaogang villagers. Section 4 investigates the operation of the HRS rule at the micro (village) level, drawing on theories of collective action and community institutional arrangements. Section 5 examines the evolution and diffusion of the HRS rule at the meso level, with a focus on the role played by officials across multiple tiers of local government. Both Section 4 and Section 5 examine processes typically characterised as bottom-up actions. Section 6 analyses how the coordination of the HRS rule was legitimised and institutionalised through national policy and law, completing the cycle of meso–micro–meso–macro institutional change. This section also highlights a top-down approach, as Wan Li and Hu Yaobang promoted the HRS by persuading provincial party secretaries and replacing those who resisted its implementation. Section 7 assesses the long-term impact of the HRS by examining its role in shaping subsequent institutional changes in rural China, including land transfer, rural–urban migration, and the democratisation of community governance. The final section summarises the main arguments, draws conclusions, offers policy implications for ongoing rural reform in China and other transitional contexts, and reflects on the limitations of the study.

2. Literature review and theoretical and methodological section

2.1 Economic gains or *political construction*

The institutional transformation from the CS to the HRS has been extensively studied across disciplines, with Justin Yifu Lin's economic explanation among the most influential. Lin attributes the transition chiefly to improved economic efficiency and the autonomous decisions of peasants. As he argues, 'a household-based mode of production is more efficient than team production' (Lin, 1987, 414), and 'the shift in the institution of Chinese agriculture was not carried out by any individual's will but evolved spontaneously in response to underlying economic forces' (1988: S201). However, by focusing narrowly on economic incentives, Lin largely overlooks the political and social dimensions of the reform. This reductionist approach risks oversimplifying the complex emergence and widespread adoption of the HRS, as it ignores the decisive role of political contestation, particularly the power struggle among key actors that culminated in Deng Xiaoping's support for Wan Li's rural reform agenda. As such, Lin's account provides only a partial explanation of the institutional shift, failing to capture the broader dynamics that underpinned the transition from the CS to the HRS.

We argue that the HRS is primarily a political construction rather than a purely economic one, comparable to the case of limited liability companies in England (Ireland, 2010). As Perkins rightly observes, 'In China, politics have more often driven economics than the reverse' (Perkins, 1988, 642). Zhao similarly notes, 'Family contracting management itself belongs to an institutional innovation in the economic sphere, but the process of innovation was clearly a political process' (Zhao, 2017, 47). It is the polity that determines the economy, not the other way around. As North states, 'Polities significantly shape economic performance because they define and enforce the economic rules' (North, 1994, 366). Institutional change is neither automatic nor politically neutral. As Evans also emphasises, 'a theory of institutional change must also address political power and conflict' (2004, 33).

From Xu's work, it is evident that he holds Maoist ideological leanings. The agricultural land system has long served as a site of ideological contestation. The introduction of the HRS marked a significant ideological shift, challenging the entrenched belief that household-based production was inherently capitalist, while team-based production and distribution represented socialist principles. Deng Xiaoping and certain senior officials used their political authority to support the legalisation and institutionalisation of the HRS, whereas Mao Zedong and others had previously used their power to obstruct such developments. Although Chairman Mao occasionally permitted the adoption of the system during periods of severe famine, this was only as a temporary expedient. Once conditions stabilised, he would again invoke the rhetoric of class struggle and launch campaigns to suppress such practices (Du, 1998; Yang, 2013). As a result, during the Mao era, the HRS could not have been legitimised or institutionalised. Other officials held divergent views, reflecting the broader ideological and political tensions of the period (Yang, 2013).

As numerous studies have shown, decollectivisation contributed significantly to economic growth. The data presented in Table 1 show substantial increases in crop yields between 1980 and 1984, a period that closely aligns with the implementation of the HRS. This evidence supports the argument that the HRS played a pivotal role in enhancing agricultural productivity, even if the precise contribution to growth remains subject to debate (McMillan *et al*., 1989; Wen, 1993; Lin, 1992; Kalirajan *et al*., 1996; Fan and Zhang, 2002). It is therefore misleading to assert that the HRS made no contribution to output growth during the decollectivisation period. Oliver Williamson (1976, 1985, 1996, 2000) views efficiency as a by-product of political bargaining in institutional change (cf. Ménard and Shirley, 2022). Xu, however, does not acknowledge even this compromise perspective on the relationship between political construction and economic efficiency. We insist that institutional change does not necessarily entail evolution, progress, and economic growth, as North observes (2005: 61). It can also lead to destructive and pervasive outcomes, as evidenced by collectivisation. At the same time, institutional change can be innovative and productive. The process of decollectivisation and the establishment of the HRS, for instance, brought about significant economic gains. It is important to distinguish between the issue of political construction and that of economic efficiency, which are separate, though closely related, dimensions of institutional change.

2.2 Bottom-up or top-down

There is ongoing debate over whether the transition from the CS to the HRS was primarily a bottom-up or top-down process. Advocates of the bottom-up view argue that the HRS originated from peasant initiatives and was later endorsed by the central government. As Daniel Kelliher famously put it, 'local people innovated; the state implemented' (Kelliher, 1992, 27). His account aligns with broader discussions on state–society relations, particularly the interaction between 'state' and 'peasants' in developing countries (Bunker, 1987; Friedman et al., 1991; MacFarquhar, 1997; Migdal, 1988; Oi, 1989; Potter, 1983; Selden, 1988; Shirk, 1993; Teiwes, 1997). However, this framework risks oversimplification by reducing the complex relationship between peasants and the state to a binary opposition. As Hu (1996: 3) notes, the state–society dichotomy is often inadequate for analysing communist systems that lack a so-called 'functioning civil society'. This is particularly true in China, where political and social conditions diverge significantly from those in liberal democracies (see Hall, 1986, for a comparison of Britain and France).

Kelliher adopts a dichotomous model, framing the transition as a contest between peasants and the state (Kelliher, 1992, ix, 5, 243–244; see also Pei, 1994; Zhou, 1996, 243–244; Ma and Lin, 1998). Yet this approach fails to capture the complexity of rural reform in China. The relationship between peasants and the state has not been uniformly adversarial; it has also involved negotiation, the alignment of interests, and the exercise of coercion. Importantly, Kelliher's model overlooks the central role played by political leaders such as Deng Xiaoping. Economic reform in China was initiated by a small political elite, and without the approval or even the silent acquiescence of the central leadership, key institutional changes such as the HRS would not have taken place (Oi, 1999).

In contrast to bottom-up interpretations, the top-down perspective attributes rural reform primarily to the central leadership, particularly Deng Xiaoping. Some accounts, however, overstate his role. Naisbitt, for example, asserts that Deng 'created a market economy in food… by… essentially, family farms' (Naisbitt, 1994, 244). Rodrik similarly contends that 'the Chinese leadership devised highly effective institutional shortcuts. The Household Responsibility System… enabled the Chinese government to stimulate incentives for production and investment without a wholesale restructuring of the existing legal, social, and political regime' (Rodrik, 2002, 8). These interpretations exaggerate the influence of individual leaders and underplay the grassroots dynamics of reform. As the case of Xiaogang village illustrates, peasants played a pivotal role in overcoming collective action problems and initiating change. Deng himself acknowledged the bottom-up origins of reform: 'The household contract system in the countryside is an invention of farmers… We simply processed their experiences and made them national guidelines' (Deng, 1993, 382). Perkins similarly observes: 'It is unlikely that China's leaders had a worked-out blueprint in mind when they set out to reform the economic system' (Perkins, 1988, 601). This incremental and pragmatic approach to reform has often been characterised as 'feeling for stones while crossing the river' (Han, 2014; Wang, 2018).

Nonetheless, the significance of Deng's role in fostering a political and institutional environment conducive to adaptive change should not be underestimated. As North (2005, 169) argues, adaptive efficiency refers to a condition in which societies continually modify or create institutions to address evolving problems. Such a process requires a political and economic system that encourages experimentation under uncertainty, while eliminating institutional arrangements that fail. North further notes that adaptive efficiency depends on a belief structure that permits trial-and-error learning and institutional innovation. In contrast, the Soviet Union exemplified the antithesis of such adaptability. Deng's support for Wan Li's experiment in Anhui demonstrates his willingness to tolerate and promote local innovation (Wan, 2013). In this regard, post-Mao China represents a strong example of adaptive efficiency, helping explain its long-term success. As Nolan (1995, 168–171) argues, this institutional flexibility is one of the reasons why China rose while the Soviet Union ultimately collapsed.

Experimentation in reform is a significant characteristic of the post-Mao era. Chinese economists Liu Guoguang and Wan Ruisun (1984, 119) summarised: 'A package deal started all at once without prior experimentation would cause great losses if something goes wrong. Therefore, the reform must start with experimentation — from minor reform to moderate reform, and from moderate reform to major reform. New conditions and new problems must be constantly studied and experience summed up'. The Central Committee of the CCP (1984, 424) also insisted: 'All moves in reform have to be tested in practice through which new experience will be acquired… All localities, departments and units should be encouraged to conduct exploratory and pilot reform'. Deng Xiaoping (1987, 627) stated: 'In the beginning, two provinces [Sichuan and Anhui] took the lead: we worked out the principles and policies of reform on the basis of the experiences accumulated in these two provinces.' In summary, under Deng Xiaoping's leadership, the structure of political and economic decision-making allowed for 'crossing the river by feeling the stones', that is, a trial-and-error approach to reform.

Therefore, the contribution of central authorities, especially Deng Xiaoping, to the reform process remains indispensable and should not be overlooked.

2.3 Methodological Deficiencies in the Arguments of 'Economic Efficiency' and 'Top-Down/Bottom-Up'

We argue that there is a methodological problem in the conventional analysis outlined above, with Lin serving as a vivid example. Lin adopts a micro–macro model grounded in classical and neoclassical economics.[2] In terms of rules, Lin's analysis of the HRS relies on a neoclassical micro–macro framework, which assumes that rules created at the grassroots level in Xiaogang can be directly aggregated into national policy. He also adopts a dichotomy of state and peasants without distinguishing between the central government and the various local governments. As he writes:

> It is worth emphasizing that the household responsibility system was worked out among *farmers*, initially without the knowledge and approval of *the central government*. It was generated through *the efforts of peasants themselves* and spread to the other areas because of its merits; it was *not imposed by the central authority*, unlike many other institutional change [s]' (1988, S201; emphasis added).

The logical implication of Lin's analysis is that institutional change in this context was bottom-up, automatic, and a spontaneous response to economic gains. However, the role of local governments in Anhui Province (and other provinces) in the emergence of the HRS is invisible. In reality, it was the crucial support and promotion by local officials that enabled the system's survival and expansion. The HRS was neither merely a spontaneous response to the demands of economic efficiency nor solely the result of peasant institutional choice. In fact, the institutional choices and initiatives of government officials play an important role in the origin and spread of the HRS (Wang, 2009). Even before the Third Plenary Session of the 11th Central Committee in 1978, senior leaders had begun to recognise a series of rural crises and were exploring alternatives to the failing Commune system. As Chen Yun, one of the regime's most senior figures, warned at a work conference: 'The PRC has existed for nearly 30 years, but we still have peasant beggars. If this problem remains unsolved, peasants may rebel, with local party leaders leading them into towns to beg for food' (1995, 240).

The HRS should be understood as both communal in its origin and a governmental institutional arrangement once institutionalised, operating at both local and broader levels to 'generate productive and innovative outcomes' (Ostrom, 2010: 641). Kelliher, among others, adopts a methodological framework centred on the state versus peasants, which tends to either overemphasise or understate the significance of institutional change at the local level. This approach overlooks the crucial mediating role played by local governments in translating and adapting grassroots initiatives into central policy, leaving a significant gap in explaining the institutional transformation of Chinese agriculture. Applying the new political economy (that is, new institutional economics applied to politics), which largely focuses on the United States

[2] As North rightly notes: 'the economic paradigm—neo-classical theory—was not creative to explain the process of economic change' (2005, vii).

and other developed polities, is therefore an inappropriate tool for analysing institutional change and prescribing policies to promote economic development in developing countries (cf. North, 1994).

We argue that the establishment of the HRS was neither purely top-down nor entirely bottom-up, but the result of dynamic interactions among peasants, local officials, and central authorities. The view that the HRS emerged from overlapping interactions across these actors is neither new nor, strictly speaking, innovative but it remains important. For instance, in October 1998, while reviewing the rural reform process, Du Runsheng observed: 'There was no pre-designed blueprint for rural reform. It was carried out through the interaction among farmers, grassroots cadres, local governments, and central leadership at various levels and in various aspects' (Du, 1999, 1). However, the specific political space in which this interactive process unfolded remains underexplored, particularly in Western scholarship. This article contributes to that discussion by challenging the dominant narrative of inevitability or pure economic rationality, whether it is framed as bottom-up or top-down reform. In doing so, we aim to deepen understanding of the political and institutional conditions that made rural reform possible in practice. We further argue that the relationship between the state and the peasantry should not be reduced to a simplistic binary conflict. While peasants are often portrayed as victims of an oppressive state (see, e.g., Scott 1979, 1985, 1995, 2012), the political process leading to the institutionalisation of the HRS, which began with the Xiaogang Village experiment in 1978, demonstrates that the competing interests of the state, local authorities, and rural communities could, in fact, be reconciled. The relationship between peasants and the state is not static but dynamic. There is no universal, transcultural or transhistorical model that can be applied across all societies and historical periods.

2.4 Micro–meso–macro architecture and other theoretical frameworks

To overcome the limitations of the micro–macro and state–peasantry dichotomies that underpin Lin's theoretical and methodological framework in explaining the transition from the CS to the HRS, we adopt an analytical framework grounded in evolutionary economics with a micro–meso–macro architecture, as developed by Dopfer *et al*. (2004). Dopfer and colleagues argue that, to understand the complex and emergent nature of economic evolution and change, it is essential to employ a multi-level structure that captures interactions across micro, meso, and macro levels (Dopfer *et al*., 2004, 263; cf. Ostrom & Basurto, 2011, 334). This is the perspective we advocate for analysing dynamic situations such as institutional change in China.

We adopt it as a primary interpretative framework not only because it provides a clear analytical scaffolding for narrating the emergence of the HRS in Xiaogang Village, Fengyang County, Anhui Province, and its eventual adoption as national policy, but also because it offers a more accurate explanation of the Chinese case than the dichotomies of micro–macro and state–peasantry.

There is a clear internal fit between Dopfer *et al.*'s theoretical framework and the historical and institutional realities of rural reform in China. Their central insight is that an economic system comprises a population of rules, a rule structure, and a rule-process (Dopfer *et al*., 2004,

163). Both the CS and the HRS are highly complex, rule-based economic systems. Each can be understood as comprising a population of rules embedded within institutional structures and undergoing continuous change. Dopfer *et al.* introduce an intermediate level, meso, to the conventional micro, macro framework. They suggest that 'The economic system is a rule-system contained in what we call the meso. From the evolutionary perspective, one cannot directly sum micro into macro. Instead, we conceive of an economic system as a set of meso units, where each meso consists of a rule and its population of actualisations' (2004, 267). This represents a particularly valuable theoretical contribution. In the case of the HRS, it is well known that the Xiaogang production team provided the foundational model. However, the rule devised by the Xiaogang villagers could not have become national policy in isolation. Similar institutional arrangements emerged elsewhere. For example, in a village in Guizhou, where peasants developed comparable rules but were compelled to keep them secret for more than ten years (Du, 1985, 15, quoted in Lin, 1987, 411, note 2). These isolated successes did not translate into large-scale institutional change or widespread rural benefits. One reason Xiaogang's model succeeded was that it received protection and support from local officials at various levels in Anhui, enabling it to occupy a meso domain. This confirms Dopfer *et al.*'s core insight that institutional diffusion depends on the existence and function of meso-level structures. This is not to imply that a meso domain, such as Anhui Province in the post-Mao era, was sufficient for the HRS to become national policy, but it was clearly necessary. Without such a meso domain, rules developed at the micro level, such as those created by production teams, the lowest units under the CS, could not have evolved into national institutional norms.

As Tsou states, 'To interpret a historical case effectively from a theoretical point of view, there must be an inherent fit between the case and the theory, although neither the historian nor the theorist is aware of this underlying parallelism or correspondence between them before the intellectual effort is made' (2000: 205). We argue that a compelling fit indeed exists between Dopfer *et al.*'s analytical framework and the transition from the CS to the HRS. Crucially, Dopfer *et al*. (2004) maintain that macro-level outcomes cannot be directly inferred from micro-level behaviour alone (cf. Ostrom and Basurto, 2011). We adopt this three-level approach to analyse rule change, given that the concept of rules occupies a central position in the analysis of institutions (Hodgson, 2004).

We also examine how successful lessons from communal institutional arrangements at the micro level can be scaled up to national governance structures, as argued by David Harvey (2012), and when a top-down approach is appropriate (Pennington, 2013). Within this framework, the implementation of the HRS at village level, exemplified by Xiaogang Village's successful collective action, represents the micro level. The role of local governments, from Liyuan Commune (township) to Fenyang County, Chuxian Prefecture and Anhui Province, constitutes the meso level. The formulation of the HRS as national policy corresponds to the macro level. This multi-tiered approach moves beyond the binary debate over whether the emergence of the HRS was top down or bottom up, or whether it was driven solely by peasants with national officials merely reacting. The micro meso macro framework, rather than a simplistic micro macro dichotomy, offers a more nuanced understanding of the complex institutional transformation from the CS to the HRS. It also highlights the pivotal role of Wan

Li, who actively championed the HRS after assuming responsibility for national agricultural policy (Fewsmith, 1994; Wu, 2013; Zhao, 2017; Meng, 2024). Furthermore, it shows that power in China, as elsewhere (see Bates et al., 2013, for the situation in Africa), can be exercised both positively and negatively.

When we borrow the three-tier framework from the evolutionary approach and apply it to the post-Mao Chinese context, we identify the rule of the HRS and its adoption by multi-level governments in Anhui Province and other regions as the meso domain, and the initial rule change in Xiaogang village as the micro domain. The micro perspective encompasses various actors and interactions—that is, the rule and its actualisation—including: the HRS and local households (who may welcome, imitate, or reject it); the HRS and local governments (who may support or suppress it); and the HRS and the central government (which initially prohibited it, later conceded, and eventually promoted it). The macro domain corresponds to the eventual adoption and institutionalisation of the HRS by the central government. Within this domain, we also examine how different meso units (i.e. rule changes across provinces) interacted and coordinated with one another. Importantly, we caution against applying this three-level framework in a static or mechanistic way. Rules are not fixed once and for all; they evolve across levels and contexts.

For instance, the rules under the CS and those under the HRS differ significantly in both structure and process. Under the CS, the production team functioned as the basic unit of production and accounting, whereas under the HRS, this role shifted to individual households. It is also important to clarify our use of the concept of 'rule,' which we adopt following Commons (1924) and V. Ostrom (1980) as 'shared understandings among actors about enforced prescriptions regarding what actions (or outcomes) are required, prohibited, or permitted' (Ostrom and Basurto, 2011, 319). Rules can be created by a variety of actors—not only governments but also collective organisations and communities. As Ostrom and Basurto (2011, 318) note, 'while some analysts equate rules with what is written in legal documents, this is only one form of recording what officials would like to think of as rules. Many rules are, however, unwritten, and many written "laws" are not followed as rules.' A narrow understanding of rules as solely government-made is inadequate for understanding what occurred on the ground during China's rural reform.

There is no reason why the micro–meso–macro framework, originally developed in evolutionary economics, cannot be applied to political science. While our approach departs from the original model by Dopfer *et al*. (2004), the framework is inherently flexible. In the context of China's unique political structure, particularly the relative autonomy of provincial governments, we propose a three-level analysis of Chinese politics under the HRS: the household as the *micro* domain, local governments (up to the provincial level) as the *meso* domain, and the central government as the *macro* domain. This adapted framework enables a more nuanced understanding of institutional change in post Mao China (For related applications, see Meng (2019) and Deakin and Meng (2021)).

However, this is not to suggest that Dopfer *et al*.'s framework resolves all the complexities of institutional change. As Ostrom and Basurto (2011, 334) point out, the framework lacks detail on the rules and rule configurations operating at the *meso* domain, limiting its ability to explain how institutional change occurs and how it can be measured. This limitation is particularly evident in the context of the transition from the CS to the HRS. The framework does not explicitly address the role of political structures, nor does it fully account for the influence of beliefs, ideology, or power in shaping economic outcomes that are essential to such transitions.[3]

Of course, it would be neither realistic nor reasonable to expect Dopfer *et al*.'s framework to account for every aspect of such a complex institutional change. Fortunately, developments in both history and the social sciences have laid the groundwork for a more comprehensive understanding of the shift from the CS to the HRS. Since the institutionalisation of the HRS, more than forty years have passed, and a substantial body of empirical evidence has accumulated. At the same time, insights from institutional economics and related disciplines have been significantly deepened by the contributions of numerous scholars.

In addition to Dopfer *et al*.'s three-tiered framework, we draw on a range of complementary theories to analyse institutional transition in the post Mao era. These include Ostrom's theory of collective action, which helps explain the cooperative behaviour of the Xiaogang villagers; North's theory of institutional change, particularly his emphasis on the relationship between beliefs and institutions, adaptive efficiency, and path dependence; and transaction cost theory, developed by scholars including Ronald Coase, which sheds light on the measurement and monitoring challenges inherent in both the CS and the HRS. We also draw on Honoré's concept of ownership, Ireland's work on the nature of property, and the legal institutionalism developed by Deakin and colleagues. Finally, theories of coalition formation and historical institutionalist accounts of conversion and layering help explain how reformists such as Wan Li overcame Party conservatives or reframed household contracts as consistent with socialism.

3. The political environment created by Anhui Provincial Committee of the CCP under Wan Li's leadership (*meso* area)

The micro–meso–macro framework developed by Dopfer *et al*. (2004) departs from the standard micro–macro algebraic modelling approach by introducing the meso level as its core unit of analysis. This meso unit is defined as a single rule together with its population of actualisation. It is this rule-based structure, rather than purely algebraic or aggregate modelling, that distinguishes the framework from orthodox economic approaches. From this unit, the framework extends to the micro and macro levels as specific manifestations of the meso. As Dopfer et al. write: 'A rule plus its population constitutes a meso unit… Micro involves a change in the composition of rule-carriers and how they interact. Macro involves a change in the coordination structure among meso units' (2004, 267). In this section, the specific rule

[3] As North notes: 'Attempting to understand economic, political, and social change (and one cannot grasp change in only one without the others) requires a fundamental recasting of the way we think' (2005, vii).

under consideration at the meso level is the one based on household production and distribution, rather than the rule based on production team production and distribution under the HRS.

We take the rule of household-based production and accounting and its population in Anhui Province as the meso domain. As Dopfer *et al*. state: 'Economic evolution involves complex processes of change in both micro and macro structure, but these themselves and the relation between them can only clearly be understood by dealing explicitly with the meso domain' (2004, 277). Accordingly, our analysis begins at the meso level, where rules originating at the micro level were first developed and subsequently diffused. In analysing community-level institutional arrangements, Ostrom (1990) also reminds us of the importance of considering the broader institutional environment.

The connection between the peasants' secret accords in Xiaogang Village (discussed in Section 4) and Wan Li's role in rural reform lies in the fact that it was Wan Li who created a favourable political and social environment that encouraged peasants to experiment with practices such as contracting production to individual households. The political and social changes in Anhui Province as part of the meso domain made the emergence of rule change at the micro level, specifically at the Xiaogang production team, possible. Therefore, it is appropriate to begin the story at the meso level. The subsequent sections then follow the trajectory from the micro level to the meso level again, and finally to the macro level.

3.1 Wan Li's re-assignment to Anhui

Soon after Mao Zedong died on 9 September 1976, the Gang of Four, Jiang Qing (Mao's wife), Yao Wenyuan, Zhang Chunqiao and Wang Hongwen, were arrested by Hua Guofeng, then Chairman of the Central Committee of the Chinese Communist Party and Mao's designated successor (Dittmer, 1978, Gardner, 1982, Liu, 1978, Onate, 1978, Tso, 1979). Deng Xiaoping, who had been labelled a 'counterrevolutionary revisionist' and the number two 'capitalist roader' alongside Liu Shaoqi, the number one 'capitalist roader' during the Cultural Revolution, was rehabilitated along with other purged officials, including Wan Li. Wan was sent to Hubei Province as second in command. Before leaving, Wan sought advice from Deng, who told him to wait (Wu, 2013).

Although Deng had not fully regained power until 21 July 1977 (*People's Daily*, 1977), he was already involved in central decision-making (BBC, 1977). Deng regarded Wan Li as a capable leader who could govern Anhui Province effectively. In June 1977, on Deng's recommendation, the Central Committee of the Chinese Communist Party appointed Wan as First Secretary of the Anhui Provincial Party Committee (Wu, 2016, 28). At the time, Anhui was severely impoverished and one of the few provinces where radicals had supported the Gang of Four (Chang, 1979, 33). It had also suffered greatly during the Great Leap Forward famine and had experimented with household contracting before 1962 (Yang, 1996). As we will see, Anhui led the way in reintroducing household farming after 1978.

Wan Li was a trusted confidant of Deng Xiaoping, with mutual support characterising their working relationship. When Deng resumed leadership at the central level, he appointed Wan as Minister of Railways in January 1975. At the time, Wan faced significant challenges from extreme leftists, whose policies had severely disrupted the railway system (Editorial Board, 1989, 662; Zhao, 2017, 70). Wan was a skilled administrator and introduced systems later adopted as models across other sectors. The central document *Decision on Strengthening Railway Work* (*Zhongfa* No. 9) not only granted Wan greater authority but also served as a template for reform in industries such as steel, petroleum, and the military during the first half of that year (Wang, 1989; Li and Wang, 1990). However, in April 1976, following Deng's removal from office, accused of instigating public demonstrations after Premier Zhou Enlai's death, Wan was also dismissed and labelled a 'reactionary go-getter' (Wu, 2016, 28). Wan recognised that his political fate was closely intertwined with Deng's. As he remarked to his supporters: 'I would be fine if Deng Xiaoping had not been purged; however, if Deng Xiaoping were knocked down, it would be useless for you to protect me' (Zhang, 2007, 86). We shall see that it was Wan who instituted the HRS, in which communal land was divided among individual farmers. Deng later praised Wan and credited him for his pioneering work in the Anhui rural reforms. As he said: 'Since China's reform originated in the countryside and rural reforms started in Anhui province, Comrade Wan Li made a great contribution' (Zhang and Ding, 2006, 218; quoted in Zhao, 2017, 47). Since Mao's death, Chinese leaders had needed to base their legitimacy largely on actual performance, specifically, on whether they could improve people's livelihoods, particularly those of the rural population. China's experience seemingly confirms the insight of the new institutionalism that 'power, if properly organised, is a productive resource' (Bates *et al*., 2013, 499).

3.2 Wan Li created a political environment for reform

3.2.1. Wan Li's Investigation of Rural Issues

Wan Li spent many years managing industrial enterprises following the founding of the People's Republic of China in 1949. After his appointment in Anhui, he travelled extensively through rural areas and witnessed widespread poverty, with most people struggling to obtain basic food and clothing. He exclaimed, 'I cannot believe that, after 30 years of socialism, ordinary people are still this impoverished!' (Wu, 2016, 29).

In Fengyang County, Wan Li held an informal round-table discussion with local cadres to address the issue of peasants migrating to cities to beg for food (on beggars in Anhui, see Mathews, 1980). During the meeting, one cadre remarked, 'Some peasants here have a habit of going to beg for food.' Wan interrupted: 'Begging is not a matter of "habit". How can you speak like that? I don't believe anyone would still go begging if there were grain and something to eat!' (Wu, 2016, 30; Wan, 1996a, 86; Zhang, 2007, 132; Zhao, 2017, 62).

When Wan Li visited the Honggang Brigade of Jinqiao Commune in Dingyuan County, then considered a model unit in the 'Learning from Dazhai' campaign (a policy promoting rapid mechanisation of agriculture and self-sufficiency), he observed that the peasants' misery

stemmed from flawed policies (Wu, 2016, 30). Although the crops appeared healthy, they were over-fertilised and both private plots and sideline production were banned. The leader of a work team declared, 'If you are here to spread capitalism, we are here with the knife of the dictatorship of the proletariat. Our right hands hold the knife of proletarian dictatorship, and our left hands hold the whip of proletarian dictatorship to slash down all things capitalist and chase you up the road towards socialism!' (Wu, 2016, 30). From this Wan traced the root causes of poor performance to the institutional and organisational structures, namely the commune system and the Dazhai model. He recognised that establishing a new rural policy agenda was essential to boosting agricultural production and safeguarding peasants' interests. As North (2005, 163) argues, 'The first requirement for improving economic performance is to have a clear understanding of the source of poor economic performance.' This insight aptly applies to Wan Li's efforts to enhance agricultural productivity in Anhui Province during his tenure as First Secretary of the provincial CCP committee.

It is necessary to introduce the basic structure of the People's Commune. The system was organised into three levels: from lowest to highest: production team, production brigade and commune. The production team was the smallest unit. A typical commune comprised between ten and thirty production brigades, each of which included ten to twenty production teams, forming a three-level structure. In some regions, however, this structure was simplified into two levels, with the commune and production brigade, and the brigade effectively serving as both brigade and team (see, for example, [reference]). In Anhui Province, there were over 240 communes at the time (Zhao, 2009, 3).

After the Great Famine, the Chinese Communist Party issued the 'Sixty Articles on Agriculture', which designated the production team as the basic accounting unit and aimed to promote egalitarianism within collective ownership (Chen, 2019). Since 1962, the production team had been the primary unit in over 90 per cent of rural China (Chinese Agricultural Yearbook, 1981, 6). Organisationally, there was an upward trend from the production team to the commune, alongside a downward trend towards smaller groups and eventually individual households. For example, during Mao's era, four movements anticipated the later HRS (Du, 1985). In contrast, the Dazhai model represented an upward shift in ownership, promoting the production brigade as the basic unit through the 'Learning from Dazhai' campaign. This model was seen as a more 'public' form of ownership and a more 'advanced' stage of socialism. Wan Li, however, upheld the production team as the fundamental unit and encouraged further decentralisation towards small groups and individual households (see the following table 2 illustrating the two trends in organisational movement within the commune.) .

3.2.2 Six Guidelines of the Anhui Provincial Party Committee

Working with other comrades such as Guo Zhuoxin, the second-in-charge who was newly transferred to Anhui Provincial Party Committee, and Zhao Shouyi, the second-in-charge , as well as Wang Guangyun, a deputy secretary in charge of agriculture, and Yuan Zhen, general secretary of the provincial party committee, Wan Li organised the Agricultural Committee and other relevant bodies to investigate rural conditions. This effort culminated in the formulation

of the ‘Six Guidelines of the Anhui Provincial Party Committee’, which were subsequently approved and adopted (Wu, 2016, 31–33; Wang, 2009, 2). In November 1977, a province-wide rural work conference was convened in Anhui. Wan Li, then serving as the province’s First Secretary, underscored the significance of agriculture, stating: ‘Anhui is an agricultural province, so if agriculture does not improve, this poses a major problem.’ He further emphasised the pivotal role of policy in mobilising peasant enthusiasm: ‘If the policy is right, then farmers will be eager; if the policy is not right, then farmers will not be eager’ (quoted in Wu, 2016, 32).

This document emphasised six principles aimed at promoting production, granting autonomy to production teams, and encouraging peasants’ initiative and enthusiasm. See the table below for the six guidelines of the Anhui Provincial Party Committee.:

Guidelines of the Anhui Provincial Party Committee

1. Agricultural work should prioritise production.
2. The operation and management of the people’s communes should be improved, allowing production teams to organise work groups at their discretion and to assign specific tasks to individual team members.
3. The autonomy of production teams should be respected.
4. The burdens on commune members and production teams should be alleviated.
5. The principle of distribution according to labour should be upheld, while accommodating the interests of all parties.
6. Commune members should be allowed and encouraged to work on their own reserve land, engage in family-scale sideline production, and participate in open market trade, among other activities.

This was known as the Six Articles of the Anhui Provincial Party Committee. Articles 2 and 3 clearly emphasise the autonomy of the production team (Wu, 2013, 31–32). These initiatives were well received by peasants in Anhui, reflecting a responsive approach to rural development.

In autumn 1977, the central government convened two agricultural meetings. The first, attended by provincial agricultural leaders, focused on accelerating large-scale production and emphasised ‘Learning from Dazhai’. The second, attended by mid-level officials from selected provinces, addressed widespread issues of dishonesty and rural poverty. During this meeting, Anhui’s Six Guidelines were introduced and discussed. This development drew official attention, prompting the *People’s Daily* to send reporter Yao Liwen, who produced the front-page article ‘The Birth of a Provincial Party Committee Document’, published on 3 February 1978 (Yao, 1978). The accompanying editorial praised the Guidelines as ‘a good role model for recovering and carrying forward the healthy traditions of the Party’ (quoted in Wu, 2016, 32).

After reading the article in the *People’s Daily*, Deng Xiaoping was reportedly very pleased. During a visit to Nepal, while passing through Sichuan Province, he recommended that Zhao Ziyang, then First Secretary of the CCP Provincial Committee, implement similar reforms there

(Zhao, 2021b). However, the Six Guidelines conflicted with Vice Premier Chen Yonggui's vested interests, as his political career was closely tied to the Dazhai model. By early 1978, about 723 counties, nearly one third of the country, had adopted the Dazhai approach. After reviewing Anhui's Six Guidelines, Chen remarked, 'What implementation of policies? Every line is rejecting and criticising the Dazhai experience!' He argued that the Guidelines ran counter to the 'Learning from Dazhai in Agriculture' campaign and insisted they be refuted. He orchestrated a series of critical articles in Shanxi Province, one of which, titled 'How Xiyang Mobilised Socialist Enthusiasm in Farmers', outlined the core principles of the Dazhai model. The article condemned the Guidelines for 'taking pleasure in giving favours and making frivolous talk', claiming they deviated from the policy of 'grasping the key link to govern the country' (Wu, 2016, 35). The article first appeared in *Shanxi Daily*, was later disseminated by Xinhua News Agency, and reprinted in *People's Daily* on 21 April 1978.

A direct conflict soon emerged between Chen Yonggui and Wan Li. When some villagers in Anhui Province adopted the HRS, Wan gave them his full support. As a result, he was accused of 'taking the capitalist road' and 'undermining socialism'. In November 1978, Chen openly criticised Wan, prompting a blunt reply: 'You say you are speaking from the Dazhai experience; I say Dazhai is an ultra-leftist model... As for who is right and who is wrong, let us see which way works best' (Vogel, 2011, 438). The conflict between the two was perhaps inevitable. For Wan, the Dazhai model had failed to deliver the prosperity it promised, which motivated him to seek alternatives.

Chen Yonggui's resistance to Wan Li's reform perfectly exemplified the path dependence inherent in institutional change. When discussing the 'source of poor performance' of institutions, North wrote: 'They have their origins in path dependence. We inherit the artificial structure, the institutions, beliefs, tools, techniques, external symbol storage system, from the past. Broadly speaking, this is our cultural heritage, and we ignore it in decision making at our peril, the peril of failing in our attempt to improve economic performance' (2005, 156). Why did Wan's proposed policy provoke Chen's fierce opposition? In North's view: 'The institutional structure inherited from the past may reflect a set of beliefs that are impervious to change either because the proposed changes run counter to that belief system or because the proposed alteration in institutions threatens the leaders and entrepreneurs of existing organizations' (2005, 157). This is perfectly applicable to Chen Yonggui. Chen, like other Maoist leaders, believed that the larger the production unit of organisation, the better, and that higher levels of collective ownership were preferable. Therefore, attempts were made to effect a gradual transition along the production team, brigade, and commune model. More importantly, Chen himself benefited from being the leader of the Dazhai production brigade and was subsequently promoted by Mao to the position of Vice Premier in charge of agriculture (Maxwell, 1975, 479 Zhao and Woudstra, 2007). It is not surprising that Chen rejected, denied, and eliminated household-based production and distribution.

Likewise, in studying the rules involved in institutional change, Ostrom and Basurto observe: 'Some will experiment with rule configurations that are far from optimal. And, if the leaders of these systems are somehow advantaged by these rules, they may resist any effort to change'

(Ostrom and Basurto, 2012, 335). This was indeed the case with the Dazhai model and its leader, Chen Yonggui, who benefited from the rules of Dazhai and resisted any changes Wan Li sought to implement in Anhui Province.

Hua Guofeng's stance towards Wan Li's Six Articles reform was marked by scepticism and resistance, reflecting his broader commitment to the Dazhai model and the existing commune system. It is not surprising that Hua Guofeng, then the paramount party-state leader, found the Six Guidelines intolerable. Upon assuming national leadership in October 1976, Hua placed significant emphasis on agriculture, fully aware that around 150 million rural Chinese still lacked basic food and clothing, with famine and begging remaining widespread. In December, he personally proposed and chaired the largest-ever national conference on the Dazhai model, attended by over 5,000 cadres at the county Party secretary level and above. The meeting established Dazhai-style agricultural practices as the core strategy of national governance (Zhao, 2021b). In the winter of 1977, Hua continued to promote 'Learning from Dazhai', describing it as 'the big fierce battle of the proletariat against the bourgeoisie' (Wu, 2016, 35), and endorsed shifting the basic accounting unit from the production team to the brigade to reinforce the commune system (ibid). Further directives followed at a symposium in November 1977, with additional field meetings held in Shandong and Jiangsu in mid-1978. In the spring of 1978, the top priority for high-level rural policy research was the drafting of two key agricultural documents in preparation for the Third Plenary Session of the Eleventh Central Committee at the end of the year. These were the *Decision on Accelerating Agricultural Development* and a new *Regulation on People's Communes*. The primary responsibility for drafting fell to the Policy Research Office of the Ministry of Agriculture and Forestry. Senior leaders, including Hua, believed that the people's commune system would remain applicable for another twenty years, and that solving China's agricultural problems would continue to depend on the Dazhai model.

Hua followed the Maoist approach of acknowledging rural hardship but seeking solutions within a collective framework. As a member of the 'whateverist' camp, he famously pledged to 'resolutely uphold whatever policy decisions Chairman Mao made and unswervingly follow whatever instructions Chairman Mao gave' (Editorial, 1977). Yet, as we shall see, Hua also showed pragmatism by taking an ambiguous attitude towards experimental reforms in Anhui, making a real contribution to rural reform (Teiwes and Sun, 2016, see also Han, 2011a, 2011b; Teiwes and Sun, 2007, 2011, 2013, 2019).

In studying historical institutionalism and the politics of institutional change, Capoccia (2016, 1117) calls for a systematic examination of the initiatives employed by institutional powerholders to promote or further entrench cultural categories that legitimise the institutional status quo. This is a valuable insight. He emphasises: 'Reactionaries should populate our narratives of the politics of institutional change as much as reformers' (Capoccia, 2016,1117). Although Hua was not regarded as a reactionary, he represented the counterpoint to Wan Li's reform efforts to institutionalise the household responsibility system. It is evident that Hua Guofeng employed such initiatives to reinforce the status quo. Campaigns such as 'Learning from Dazhai' exemplify what Ahlquist and Levi (2013) describe as 'education or propaganda

initiatives, and symbolic policies aimed at reinforcing corporate or collective identities' (on strategies of agenda control, see also Ordeshook and Schwartz, 1987; Plott and Levine, 1978).

3.2.3 Support 'lending land to live through the famine'

In 1978, Anhui Province experienced a severe drought, with tributaries of the Yangtze and Huai Rivers drying up, raising fears of widespread crop failure. 'Under such circumstances, the commune system, which required collective management and labour, became fragile' (Zhao, 2017, 51). Seizing the opportunity for reform, the Anhui Provincial Party Committee, under Wan Li's leadership, introduced a policy to 'lend land' to peasants as a drought relief measure. It allowed commune members to cultivate previously fallow collective land for wheat and vegetable production, exempt from grain taxes and central procurement quotas. The initiative aimed to increase peasants' motivation and promote self-reliance in responding to the drought's challenges (Wu, 2016, 42). In response, grassroots cadres and peasants in some areas began experimenting with contracting farmland to small groups or individual households (Wu, 2016, 42). Several initiatives followed. For example, in Shannan, peasants proposed a system of contracting output to individual households, which received support from First Secretary Tang Maolin.

Wan Li protected the experiment, sought central government approval, and designated it as an official pilot site (Wu, 2016). Both exogenous shocks, such as the drought, and Wan Li's earlier 'six articles' reform in 1977 contributed to the institutional change in Shannan District. This aligns with Greif and Laitin's (2004, 639) observation that 'Institutions can change due to endogenous processes, exogenous shocks, and combinations of both.'

In December 1978, the Third Plenary Session of the 11th Central Committee made agriculture its central focus. Following the plenary, the Politburo decided to establish the National Agricultural Commission to strengthen agricultural leadership, appointing Vice Premier Wang Renzhong, who oversaw agricultural affairs, as its director. On 14 March 1979, Wang wrote to Hu Jiwei, editor-in-chief of the *People's Daily*, stressing that the people's commune system must continue to be implemented stably, based on the principle of 'three-level ownership with the production team as the basic unit', and that there must be no regression. He asked the *People's Daily* to support this policy by promoting it and by criticising and correcting the emerging practice of contracting production to smaller groups.

On 15 March, the *People's Daily* published, on its front page, a letter from the masses signed by Zhang Hao, accompanied by a 500-word editorial note. The note emphasised that 'the "three-level ownership with the team as the basic unit" system should be maintained', and that areas where land had been divided or contracted to groups must 'correctly implement the Party's policy and resolutely rectify these erroneous practices.'

This was a major episode in the debate over the HRS, triggering tensions between central and local authorities. Local supporters of household-based reform, led by Wan Li, were able to withstand central pressure but lacked the power to respond directly (Zhao, 2021). The episode also demonstrated Wan Li's determination and political courage in advancing rural reform.

Between 12 and 24 March 1979, the National Agricultural Committee held a forum in Beijing with representatives from agricultural departments across seven provinces. The responsibility system became the focus of intense debate. Zhou Yueli, representing Anhui, argued that all types of responsibility systems should be allowed as pilot schemes to enable comparative evaluation through practice. He further maintained that fixing output quotas to individual households should be considered one form of the responsibility system. His views contrasted with the prevailing orthodoxy at the time (Wu, 2016, 45, 65).

On 15 March, an article entitled 'Three-level Ownership with the Production Team as the Basic Should Remain Stable', written by a reader named Zhang Hao, appeared as the front-page headline of the *People's Daily*. Zhang Hao, a local cadre from Gansu, had visited his hometown in Henan and found that output was being contracted to production groups. He subsequently wrote a letter expressing his disapproval of this practice. Zhang argued that while some contracting of work to groups was allowed (as stated in the Third Plenum's documents), if groups acted as accounting units, the system would become unstable, cause disorder, and lose the acceptance of the masses.

Though Zhang's letter might have seemed unremarkable, the accompanying editorial comment was more alarming: 'The people's communes must now continue to steadily implement the ideology of "commune, production brigade and production team own all, with production teams as the base," and we cannot regress from the production team as the base for dividing land and contracting production to the group. Places where dividing land and contracting production to the group have already occurred should correctly implement the Party's policies, and resolutely rectify their mistakes' (*People's Daily*, 1979). It was later revealed that these editorial comments were issued under the instructions of Wang Renzhong, the newly appointed Vice Premier and head of the Agricultural Committee, who had replaced Chen Yonggui in overseeing the *People's Daily*'s editorial department. Zhang Hao's letter and the editorial reflected the mindset of leaders at the Ministry of Agriculture. Interestingly, the editorial was drafted by Du Rensheng (Zhao, 2021) and even rejected the 'also permitted' clause approved by the Third Plenary Session (Wu, 2016, 65).

After hearing the news broadcast that day, Wan Li immediately made eight urgent phone calls to each prefecture and county under the Anhui Provincial Party Committee's jurisdiction. He instructed local authorities to remain resolute and focused, regardless of the specific responsibility system in place, and to concentrate all efforts on spring planting and agricultural production. The following morning, he visited grassroots areas to stabilise the emotions of cadres and peasants. Responding to the editorial, he said: 'The newspaper is like a public bus—anyone can get on and express different views. If other readers can write letters, so can you. Views that truly reflect the fundamental interests of the people must come from practice and experimentation. People must not retreat just because they see a reader's letter and an editor's note.' He added: 'Major work for the spring harvest has already begun, and policies cannot be reversed arbitrarily. Once we have set our sights on a direction, we must remain determined to carry it through. After the autumn harvest, we can summarise the lessons and experiences.' Finally, he posed a pointed question: 'If output drops in the autumn and farmers go hungry,

will you turn to the Provincial Party Committee or to *People's Daily*? Can *People's Daily* feed you?' (quoted in Wu, 2016, 45–46). Wan Li was willing to oppose the prevailing orthodoxy. He argued, 'What is wrong with three and a half levels of production? Why must it be three instead of four? Personally, I believe five levels would be even better! If each household calculates and budgets meticulously, production will develop even more rapidly' (Wan, quoted in Wu, 2016, 65). He also contacted *People's Daily* editor Hu Jiwei, one of the strongest reformers with a record on agriculture from the pre-Third Plenum work conference, seeking explanations and possible redress, which was secured by the end of the month (Xu, 2012; Qian, 1998; Wang, 2000; Ma, 2006).

Following the disruption caused by the letter, the forum moved to finalise its summary. A drafting group from the State Agricultural Commission (SAC) was responsible for this task. After reviewing the draft, Zhou Yueli from Anhui Province disagreed with the section on responsibility systems. Du Runsheng, then Vice-Director of the SAC, asked Zhou to prepare an alternative version for consideration, noting that the final decision would rest with Hua (Du, 2005, 132).

On the afternoon of 20 March 1979, Hua held a six-and-a-half-hour reception for forum participants. After Du's introductory remarks, Vice Minister of Agriculture Li Youjiu read out the SAC draft, and Zhou presented his alternative version. Zhou advanced the expansive view that baochan daohu should be considered a form of responsibility system, with trials permitted for each type and the masses free to choose without excessive leadership interference (Zhou, 1998, 22). Zhou's position went well beyond Wan Li's instructions to him (Jiang, 2009), surprising Hua, who had read the report from the Anhui Provincial Committee, which Zhou had drafted. Hua then instructed Wang Renzhong to phone Wan Li for clarification. When Wang asked if Wan knew about Zhou's views at the forum, Wan replied they fully represented those of the provincial committee. Wang further asked about the promotion of the responsibility system in Anhui, and Wan used the stability argument to insist that existing measures should remain undisturbed during spring planting, with review after the autumn harvest; he also pledged not to publicise or further promote his experiments. Wang's response, reflecting Hua's decision, allowed Anhui to proceed as planned by the provincial committee (Zhou, 1998, 12–13, 22; Ding, 1998, 67–68; Yang, 2010, 228–29). This was undoubtedly a compromise. While Hua and Wang did not endorse Anhui's household contracting as general policy, they permitted provincial leaders like Wan to address issues pragmatically on the ground (Teiwes and Sun, 2020: 91). This marked a significant shift from the rigid centralised control of the Mao era. Hua pursued a policy of avoiding crude rollbacks of *baochan daohu* where it had emerged, despite apparent Party directive violations (Teiwes and Sun, 2020, 263). This contrasts sharply with Mao's 1962 intervention to halt Zeng Xisheng's experiments in Anhui (Yang, 2012).

However, it is also worth noting Wang Renzhong's flexibility in approach. In his address to the forum on 22 March 1979, Wang acknowledged that both positions expressed in the discussions had merit and emphasised the importance of allowing free and open debate. More broadly, in relation to mistaken views, he stated that such issues were matters of work, not

grounds for political persecution, remarking that such opinions should not be used as a cudgel to "beat people to death." He thus signalled a more relaxed and pragmatic climate emerging in the post-Mao period under Hua Guofeng, explicitly criticising the harsh, leftist style of political criticism that had dominated the Party from 1957 until Mao's death (Liu, 1988, 80–97).

More significantly, on Zhou Yueli's initiative and under Wan Li's instruction, officials in Anhui drafted a rebuttal to Zhang Hao's letter, which had sparked controversy. This rebuttal was framed as another letter to the *People's Daily*. The editors promptly agreed to address the issue and, after consulting Wang Renzhong, published the rebuttal on 31 March 1979, alongside a second letter expressing an opposing view to Zhang Hao's. Notably, the accompanying editorial comment conceded that both Zhang Hao's letter and the *People's Daily*'s editorial of 15 March 1979 had included inaccurate formulations and cautioned that greater care should be taken in future (Li, 1995; Zhou, 2009; Qian).

At a provincial party committee meeting in September 1978, Wan Li stated:

> The most important work for this winter and next spring is to carry out the autumn sowing … It is better to lend some land to peasants for individual cultivation than have the land abandoned. In this special period of serious drought, we must break routine and adopt special policies to overcome the disaster (Bo, 2007, 156).

The idea of contracting land to individual households was initially described as 'lending land to survive the famine' or 'sowing wheat by lending land' (Zhao, 2017, 51). At the time, this approach was considered 'capitalist' and therefore politically taboo. As one critic put it: 'Lending land to commune members is equivalent to denying the superiority of the collective economy. The enthusiasm generated by this method is not socialist enthusiasm!' (quoted in Zhao, 2017, 51). In response, Wan Li argued that grain, 'whether produced by the collective or by individual peasants', could ensure subsistence during disastrous times (quoted in Bo, 2007, 157).

In September 1978, encouraged by the 'Six Provisions' policy issued by the provincial Party committee, some areas in Anhui began experimenting with household-based farming. According to available information, the central leadership formally became aware of the emergence of 'responsibility farming by production group' and even 'household responsibility farming' in Anhui and other regions around mid-October 1978, through official channels. At that time, Ji Dengkui, the Deputy Premier in charge of agriculture, came across the news in Xinhua News Agency's *Domestic News Sample* and summoned the head of the Ministry of Agriculture and Forestry for discussion. He then instructed that personnel be sent to conduct an investigation. Ji's response to the emergence of household responsibility farming was notably neutral. He neither condemned nor endorsed it, merely noting that it could improve productivity, while acknowledging that other methods might achieve similar results. The Ministry promptly dispatched investigators to Anhui (Zhao, 2021b). Ji's stance suggests that the political environment surrounding the HRS had become more permissive compared with the Mao era, despite Ji himself having risen through the ranks under Mao.

During a break at the Central Work Conference in November 1978, Wan Li, First Secretary of the Anhui Provincial Party Committee, reported the matter to Hua Guofeng. Hua remained silent, neither opposing nor explicitly approving the experiment. His response, however, indicated a degree of flexibility. This development enabled post-Mao society to achieve what Douglass North termed 'adaptive efficiency', defined as 'the ability of some societies to flexibly adjust in the face of shocks and evolve institutions that effectively deal with an altered "reality"' (North, 2005: 6). Tolerating Wan Li's experiment in Anhui marked a significant shift from Mao's rigid approach. On the one hand, Hua Guofeng's contribution to the eventual establishment of the HRS should not be overlooked (see, for example, Li-Ogawa, 2022). On the other hand, it is important not to overstate his role, as Teiwes and Sun (2021) arguably do.

On 6 February 1979, Wan Li chaired a meeting of the Anhui Provincial Standing Committee. After heated debate, it was agreed that Shannan District in Feixi County would serve as a pilot site for *baochan daohu*,[4] under the authority of the provincial committee and with awareness at the central level. However, the decision included a proviso: 'no publicity, no reporting in the press, no promotion' (quoted in Zhao, 2021b). In retrospect, this proved to be a sound strategy, as maintaining a low profile helped to reduce resistance**.**

In January 1979, after receiving a report from Wang Yuzhao on Chuxian Prefecture's approach of contracting land to small village groups, Wan Li stated:

> Some people criticise our implementation of rural economic policy as "using petty cleverness and giving up morality and principle." They accuse us of encouraging "individual farming in a disguised form," "restoring capitalism," and "opposing Dazhai." … Currently, the top priority is to solve the problem of people's food and clothing. (Wan, 1995, 115–16)

Wan Li defended the policy with common sense, insisting that the best politics ensured peasants had food and production increased, while the worst politics left people without food or clothing (Cui, 2008). He turned the crisis caused by the severe drought into an opportunity for rural reform (Fewsmith, 1994). As Ostrom and Basurto (2011, 326) note, natural disasters often prompt communities to reform governance systems in order to adapt to new conditions. As Zhao Shukai observes: 'The internal natural disaster that occurred in Anhui, that is, the serious drought across the province, directly triggered the abrupt policy breakthrough at the grassroots level' (Zhao, 2017, 50; see also Wu, 2016). Beyond the challenges posed by natural disasters, the vision and responsibility of political leaders such as Wan Li remained crucial (Zhao, 2017, 73).

4. Xiaogang's experiment (generic rules at *micro* level)

In December 1978, Yan Hongchang, deputy leader of the Xiaogang production team, and the team's accountant, Yan Lihua, held a meeting with the eighteen household heads to discuss

[4] *baochan daohu* (包产到户), literally 'contracting output to the household', refers to the practice of assigning production responsibility and output quotas to individual peasant households while land ownership remained collective.

how to improve agricultural production (Chang, 2021). At the time, Xiaogang was among the poorest teams in the Liyuan Commune of Fengyang County, Anhui Province. Both Yan Hongchang and Yan Lihua were practising farmers, with closer ties to ordinary peasants than to government officials. The meeting took place at Yan Lihua's home, where Yan Hongchang asked how they could increase output and escape poverty.[5] The group agreed to divide the collectively owned land and productive resources, such as draught animals, and allocate them to individual households (Wu, 2016). The agreement they reached is quoted in full below.

> We divided the collective land among households, with each household head signing and affixing their seal. If successful, each household agreed to meet its annual state procurement quota without requesting grain or financial support from the state. If the experiment failed, we, the cadres, were prepared to face imprisonment or even execution. We ask the remaining members to guarantee the upbringing of our children until they reach the age of eighteen (National Museum of Chinese History, GB54563, 1983; our translation).

This was a secret agreement among the team members, as such actions were prohibited for contradicting the socialist principle of collective farming (Editorial Board of *China Agriculture Yearbook*, 1980, 58). At the time, the official production system designated the production team as the basic unit of production and accounting. While contracting to groups was allowed, contracting to individual households was explicitly forbidden, as it was seen as incompatible with collective farming. For example, two agriculture-related documents issued at the Third Plenary Session of the 11th Central Committee clearly stated: 'No fixing the farm output quotas for each household, no dividing land and labouring individually' (CCCPC, 1979). Likewise, Anhui Province's Six Articles reform document specified: 'Not permitting the contracting of production to individual households and not permitting the figuring of compensation according to output' (Wang *et al*., 385). At the same time, Fengyang County was experimenting with group-based production contracts. Most production teams in Fengyang made choices within the existing institutional constraints.

Despite official prohibitions, the peasants of Xiaogang established their own rules for allocating land and production resources, and for meeting state grain procurement quotas and collective reserves. As Wu Tingmei (2002 [1979], 7) noted: 'Although they knew that only "contracting to groups" was permitted and "contracting to households" was forbidden, they believed that on this impoverished land, only the latter approach would motivate them to work.[6]

They produced a written agreement, marked with fingerprints and personal seals, committing to meet state procurement quotas and collective reserves through a mutual arrangement between team leaders and members. In the event of arrest or imprisonment, the others pledged to support the cadres and raise their children collectively. Now housed in the National Museum of Chinese History, the document has been authenticated and is considered a historic relic (Ling,

[5] The primary goal of the peasants at Xiaogang Village was to overcome food and clothing shortages and escape poverty by boosting labour motivation through the household contract responsibility system.
[6] They perceived that group-based production contracts were ineffective and believed that contracting production to individual households was the only viable way to improve productivity. Their conviction was grounded in the belief that a household-based production model would be more workable and efficient.

1997, 8–10; Zhang, 2002).[7] This episode highlights the importance of trust, reciprocity, and reputation in enabling successful collective action (Ostrom, 1990, 1998). The Xiaogang villagers' covert initiative challenges the conventional view of peasants in China and elsewhere as passive political actors, often assumed to be directed by the state or urban elites. Through this initiative, they gained autonomy over agricultural production, placing decision-making in their own hands. Their bold action laid the foundation for the transformation of China's rural economy.

It is important to note that the peasants did not seek the privatisation of land but upheld collective ownership. After more than two decades of collectivist experimentation, the villagers of Xiaogang weighed the relative costs and benefits of private versus communal land-use systems. They believed that their method would improve labour productivity, although their views evolved over time. As North (2005, 17) observes, 'alterations in beliefs leading to resource reallocations' are a key source of growth in the stock of knowledge. The villagers chose to maintain community ownership as the basis for land use. Through production teams, they contracted collectively owned land to individual households. Under this system, each household was required to meet national grain quotas and contribute to collective reserves, while keeping any surplus. This arrangement effectively aligned the interests of the peasants, the collective, and the state. As Chen (2019, 462) notes, 'this was, to some extent, a distribution method that could be accepted by all three parties, thus permitting that the reform could move forward smoothly'. Had the Xiaogang peasants demanded private land ownership, such a request would likely have been rejected. As Peter Nolan (1993, 74) explains, 'the CCP did not wish to allow the emergence of a landlord class, and, therefore, land could not be bought and sold'. This development illustrates the creativity of the peasants and their capacity for collective learning from the preceding decades of the communist experiment.

This transformation also reflected the cultural heritage of Chinese peasants (Sun, 1987; cf. Dong, 1996; North, 2003). The post-Mao agricultural economy developed from a cultural foundation that enabled institutional innovation. The HRS successfully addressed a key challenge: reconciling collective ownership with individual initiative and motivation in agricultural production. North (2005, 62) emphasises that individual choices are shaped by perceptions, which reflect how the mind interprets information. He further explains that these mental constructs are formed partly by cultural heritage, partly by local everyday problems, and partly through non-local learning. This framework helps to illuminate the institutional experimentation undertaken by the Xiaogang villagers, who sought to combine perceived benefits of both 'socialism' and 'capitalism'. They were motivated by the urgent need to resolve immediate problems, particularly food and clothing shortages, while remaining aware of the broader political and social context.

[7] Their decision was to secretly divide collective land, draught animals, and other production resources among households, assigning each household production quotas while allowing them to retain any surplus after meeting state procurement and collective reserve obligations. In doing so, they created a direct link between effort and reward: the harder they worked, the more they could produce and the more they could keep. This system incentivised increased labour effort by aligning personal gain with agricultural output.

The move to household-level contracting followed a process of trial and error. Production was first contracted to four groups among 20 households, which failed, and then to eight groups, which also proved unsuccessful. Only subsequently was production contracted to individual households (Wu, 2002 [1979]; for further discussion of this trial-and-error process, see Wu's record in the appendix). This evidence supports the view that actors, constrained by technological, economic, or institutional conditions, adapt institutions to address new problems, facilitate collective learning, or enhance efficiency (March, 1991; Powell *et al.*, 1996; Thelen, 1991). It also indicates that learning, while shaped by inherited cognitive models (Heclo, 1974), often proceeds through trial and error that reshapes existing rules (Levitt and March, 1988; cf. Clemens and Cook, 1999, 451). Trial-and-error experimentation has been central to post-Mao reforms. North (2005, 163) identifies such experimentation as the primary source of adaptive efficiency underlying the material success of the United States. This process of discovery and institutional improvement, particularly the emergence of market-oriented rules, was enabled by the freedom of dissenters to explore alternative approaches (Hayek, 1973, 82; 1979, 161; 1983, 287; cf. Petroni, 1995, 99; Servant, 2018, 362).

Xiaogang's innovation occurred amid the spread of group-based production contracting in Fengyang County, indicating that diffusion processes can stimulate local innovation as actors adapt new institutional rules to existing practices and resource constraints (Campbell, 1998, 382–83; Soysal, 1994; Stryker, 1999; Westney, 1987). At the time, Xiaogang was the poorest production team in Liyuan Commune, which was itself the poorest commune in Fengyang County, the poorest county in Anhui Province (Wu, 2002 [1979]). This supports the view that not all actors are equally likely to experiment institutionally. As the Chinese saying goes, 'when one is poor, one seeks change'. Those with little to lose are often the first to depart from established norms and explore alternative arrangements. By contrast, Jiangsu, a wealthier province, was less active. Groups that are marginal to the political system are therefore more likely to engage in institutional experimentation. Such groups face lower costs when breaking from existing structures because they have limited access to their benefits (Leblebici *et al.*, 1991; Stearns and Allan, 1996). They may also innovate in order to gain political inclusion by proposing new models of mobilisation or reform (Clemens, 1993; Hirsch, 1986; Morrill, 1999; Schneiberg, 1998).

Dopfer *et al*. (2004: 266) define knowledge as 'a rule structure', highlighting that economic evolution is driven by the origination, adoption, adaptation, and diffusion of generic rules. In their framework, knowledge growth supports improvements in economic systems. They explain: 'When we focus upon a single generic rule and a particular carrier, we have a "micro" perspective on the rule in its local environment'. Thus, the rules created by the Xiaogang peasants can be seen as micro-level rules.

Dopfer *et al*. (2004, 266) note that 'the rules that matter for understanding economic systems are those that are generic'. The rules established in the Xiaogang village agreement can reasonably be regarded as generic. The eighteen peasants and two cadres, also peasants, can be viewed as evolutionary economic agents who are both 'rule-taking and rulemaking' (Dopfer, 2004). Dopfer et al. (2004, 266) further explain their focus on the connections between rule

carriers, the efficiency of rules in specific processes, and the socio-psychological factors shaping the origination, adoption, adaptation, and retention of rules. Here, we examine the origin of the HRS within its political and ecological context, exploring how and why the Xiaogang peasants created their rules, for what purposes, and through which mechanisms, including trial-and-error experiments.

5. The survival of Xiaogang's experiment and the role of multi-level local officials in Anhui Province (*meso* level: a rule plus its population)

If the institutional rule established by the Xiaogang villagers' practice is understood as a micro-level innovation, then the responses of officials at various levels of local government in Anhui Province may be regarded as constituting a *meso*-level rule (Meng, 2018; 2019). At the time, the people's commune served both as the highest level of collective rural organisation and the lowest tier of state administration, operating beneath a hierarchy of county, prefectural, and provincial authorities. The way in which these higher-level institutions responded to Xiaogang's experiment, whether by turning a blind eye, offering tacit endorsement, or eventually formalising the practice, illustrates the critical role meso-level actors played in mediating grassroots innovations and enabling policy transformation. Without the interaction between the rules created by the Xiaogang villagers and officials at multiple levels of local government, forming an intermediate meso-level, it would not have been possible for these grassroots rules at the micro level to be legitimised and institutionalised at the macro-national level.

Although the villagers of Xiaogang kept their actions secret, their initiative was eventually reported to Zhang Minglou, the First Party Secretary of Liyuan Commune (Zhang, 2002, 569). Zhang criticised the peasants for being excessively 'greedy', expressing displeasure that they were not content with the officially sanctioned policy of contracting production to groups Concerned about the potential consequences, he attempted to exert pressure by withdrawing seeds, fertilisers and other essential production inputs in order to compel the villagers to return to group contract production, in alignment with the official policy of Fengyang County. In an effort to avoid personal responsibility, Zhang reported the situation to Chen Tingyuan, the First Secretary of Fengyang County (Zhang, 2002, 569; For information on the structure of local governments and collectives in a typical province at that time).

Chen was familiar with rural conditions and sympathetic to the peasants' hardships. He instructed Zhang to permit the villagers to continue their practice discreetly. His reasoning was that, even if Xiaogang's experiment appeared capitalistic, it was ultimately insignificant in the broader context. As he remarked, 'Even though this kind of practice in Xiaogang Village could count as a restoration of capitalism, it could not influence the whole situation because there were more than three thousand production teams in his jurisdiction' (Zhang, 2002, 569). Chen also reported the matter to his superior, Wang Yuzhao, the First Secretary of Chuxian Prefecture (Teiwes and Sun, 2016, 40; Chung, 2000, 94).

However, Chen later reversed his position when Xiaogang's example was adopted by other production teams, thereby disrupting the policy of contracting production to small groups in

neighbouring areas (Sun and Xiong, 1990, 305; Ling, 1997, 211–212; Lu, 1986, 69; Wang, 1987, 399–402; Teiwes and Sun, 2016, 78, 78n27, 99–100). Nevertheless, it was Chen who forwarded Wu Tingmei's report on Xiaogang's experiment, highlighting its remarkable economic performance in raising productivity and alleviating poverty, to Wan Li at a provincial meeting, thereby drawing his attention to the village (Wu, 2016, 55; Chung, 2000, 90, 92, 105nn21–22; Fewsmith, 2008, 28–29, 42, 52n41). This played a key role in enabling Xiaogang's experiment to become the origin of the national Household Responsibility System. As will be seen, after Wan Li was promoted from a provincial to a central leadership position, he made significant efforts to elevate Xiaogang's practice into national policy (Wang, 2000). This is because, among the many local experiments in contracting production to households, the rules created by the Xiaogang peasants had several advantages: its benefits were more direct, its methods were simpler, and it received greater approval from the peasants (Wu, 2016, 52).

Wang Yuzhao was a reform-minded official. Even before Wan Li's arrival in Anhui in the spring of 1977, Wang had organised 394 cadres to inspect 401 communes and brigades in order to re-evaluate the rural policy of 'Learning from Dazhai' (Wang, 1987, 9; see also Wang, 2009). Wan Li drew extensively on Wang's findings to draft a set of provincial regulations guiding agricultural development in Anhui. Wang permitted the peasants of Xiaogang Village to experiment with the Household Responsibility System for three years, which proved successful. Under his influence, Chuxian Prefecture became a cradle of rural reform. As one widely cited slogan-like expression from the time stated, 'Better groups than teams, better households than groups. Production contracted to the group is unstable [unsustainable]; production contracted to the household is unstoppable [irreversible]' (quoted in Wu, 2016, 66). The two counties that implemented successful rural reforms, Feixi County and Fengyang County, both under Wang's jurisdiction, were publicly praised by Deng Xiaoping in May 1980 (Deng, 1980). Following Deng's endorsement of the HRS, Wang took the political risk of challenging his direct superior, Zhang Jingfu, then First Secretary of the Anhui Provincial Committee, who had succeeded Wan Li. Zhang tried to reverse Wan Li's reform in Anhui and did not allow contracting production to households and put pressure on reformers such as Wang Yuzhao. Wang was subsequently promoted by Wan Li to the State Council's Research Centre for Rural Development.

With the support of leaders at various levels of local government, the policy of 'contracting output to households' (*ban gan dao hu*) in Xiaogang Village not only survived but also achieved remarkable success. Wu Tingmei documented the outcomes in an investigative report dated December 1979. Within just one year, the villagers emerged from long-standing poverty. They produced 65,000 kilograms (132,370 *jin*) of grain, which was equivalent to the total output from 1966 to 1970, and 35,200 *jin* of oil crops, equalling the cumulative yield of peanuts and sesame over the previous two decades.[8] They sold approximately seven times their grain quota. For 23 years, the villagers had relied on state subsidies; now, they were generating significant surpluses. Peasants' incomes increased sixfold. For the first time since 1957, the Xiaogang

[8] Note: One *jin* is a traditional Chinese unit of weight equal to approximately half a kilogram.

team not only met but exceeded national quotas for grain and rape seeds, by factors of six and eighty respectively (Wu, 2002 [1979]; Wang, 2009, 5; Wu, 2016, 53).

Xiaogang's system spread rapidly as peasants observed the success of the new approach. The imitation of the rules implemented in Xiaogang led to the adoption of similar institutional arrangements across the region. Although such practices were officially prohibited at the time, peasants justified their actions by asking, 'We have the same government leader, so if Xiaogang can do it, why are we told we cannot?' (Wu, 2016, 53). They also followed Xiaogang's example by 'concealing the truth from higher levels of government and implementing the new method secretly' (Wu, 2016, 53). Within a year, these new teams achieved yields significantly higher than those of other teams in Chuxian Prefecture, with grain output increasing by 25 per cent (Chen, 1981, 100).

The increased output from Xiaogang Village, and more broadly in Chuxian Prefecture, provided clear positive feedback for the newly emerging HRS, and negative feedback for the prevailing CS. This supports the perspective of historical institutionalists, who argue that analysing both positive and negative feedback loops is central to understanding institutional processes and stability (Ikenberry, 1994). Negative feedback can contribute to critical junctures, during which new institutional arrangements are formed (Collier and Collier, 1991, Katznelson, 1997, Thelen, 1999). As Pierson (2000, 253) observes, strong positive feedback may sustain short-term institutional stability, yet the gradual accumulation of negative feedback can ultimately lead to institutional breakdown.

In the case of agricultural reform in China, this dynamic is evident in the contrasting feedback received by the HRS and the CS. As early as 1977, Chen Yun recognised the negative consequences of the CS (Chen, 1977). Accordingly, when Wan Li presented his experimental reforms during the second session of the Fifth National People's Congress in June 1979, Chen Yun gave his personal support (Vogel, 2011, 439, Zhao, 2016). Chen Yun has been described by Zhou (1996, 66) as conservative and strongly opposed to the HRS. However, as Twitchett and Sun (2016, 6, note 18) rightly argue, this characterisation is unfounded. One important reason Chen offered his personal support to Wan Li was his recognition of the negative feedback generated by the CS. The nature of the feedback, whether positive or negative, associated with the CS and the HRS was reflected in the agricultural outputs produced under each system. Wan Li's firm support for, and promotion of, the HRS stemmed from his observation of the positive feedback generated by the experimental reforms in Anhui.

In early 1980, Wang Yuzhao delivered a speech titled 'Go along with the people's will and actively guide it' at a working conference on the countryside organised by the provincial Party Committee. He called for the recognition of the all-out contract system as a form of socialist production responsibility system. On 11 January, Wan Li concluded the meeting by stating, 'The household output contract is not something proposed by us. It was already there. The baby is born and its mother rejoices' (Wang, 2009, 5). It was also at this meeting that Chen Tingyuan passed Wu Tingmei's report to Wan Li (Wu, 2016, 55).

In January 1980, Wan Li and other cadres visited peasants in Xiaogang, where they discovered an unexpected stockpile of thousands of jin of food. Wan's response was: 'Well! This village, known for begging, will not go hungry again!' (Wu, 2016, 55). Yan Hongchang complained, 'Some people say that Xiaogang's "contracted production to household" system is "pulling the wheels of history in reverse" and "digging a corner of the socialist wall"' (ibid.). Wan replied, 'Whoever says this, I will ask if they have a better solution to make farmers wealthy. If so, we will follow their way. If there is no better solution, then whoever says you are "pulling the wheels in reverse", "digging a corner of the wall", and preventing you from working, let me handle it' (Wu, 2016, 56). Wan told the peasants, 'The prefecture government allows you to contract outputs with households for three years; I allow you to do it for five years' (Zhang, 2002, 559–579).

Thus, Wan Li's encouragement accelerated the institutional change from the CS to the HRS in Anhui province, enabling this small-scale community arrangement to be adopted at the provincial level. The role of local governments at multiple levels and their leadership cannot be underestimated in the process of economic reform and institutional change (Chung, 1993). 'Given both his organisational authority within the province and a significant degree of leeway from the centre' (Teiwes and Sun, 2020, 142), Wan was able to protect Xiaogang villagers' innovation despite opposition within Anhui and from other provinces, 'as graphically illustrated by the slogans broadcast on the Jiangsu–Anhui border denouncing Anhui's revival of capitalism' (ibid.).

Dopfer *et al.* (2004, 263) 'conceive of an economic system as a set of meso units, where each meso consists of a rule and its population of actualisations'. In this sense, it is appropriate to understand the rule created by Xiaogang, along with its population of actualisations in Anhui province, namely its acceptance and diffusion, as a *meso* unit. Similarly, its subsequent acceptance and diffusion in other provinces can also be conceived as distinct *meso* units.

Dopfer *et al.* (2004, 266) state: 'The meso perspective abstracts from such detail to focus on the population of rule actualisations. Our concern lies with aspects such as the size of this population, the developmental stage of the meso unit, described as a three phase meso trajectory, and the composition of its carrier population'. In this context, we examine how the rules established by the peasants of Xiaogang were adopted and diffused by other production teams within Anhui Province and beyond. A meso unit is defined by Dopfer *et al.* as 'a rule plus its population' (2004, 267). As they further emphasise: 'When we view an economic system through a meso lens, what we see are meso populations and their evolutionary moments: such as the size of a rule population, or the variance in the rule in terms of the variety of its micro actualisations, or the phase structure of a meso trajectory' (Dopfer *et al.*, 2004, 267).

As peasants in different jurisdictions within Anhui Province, and subsequently in other provinces, began imitating the Xiaogang model, often with official approval, an increasing number of production teams adopted household contracting. Consequently, the size of the rule population expanded (on provincial variations in the timing of the transition to the HRS, see Sun and Chen, 2019, 544, Figure 2).

Dopfer *et al* (2004) entitled meso perspective as a foundation for both micro and macro perspectives. As they write:

> Both micro perspectives on economic evolution (e.g. the complex structures of rules that constitute systems such as firms) and macro perspectives on economic evolution (e.g. complex structures of rule-populations such as industries or the whole economy) are both views that build upon a meso perspective. When we observe change in the meso, by which we mean a change in generic rules, i.e. in the knowledge base, and/or in their respective populations, we can then analytically focus on both the micro and macro aspects of this process' (2004, 267).

This is evident in the case of the HRS. Without the expansion in the number of production teams adopting the rules originally created by Xiaogang Village, it would not be possible to analyse both the micro and macro aspects of the HRS. For example, as mentioned in Section 2, a village in Guizhou had adopted rules similar to those of Xiaogang more than ten years earlier. However, this case remained invisible because it was kept underground until the HRS was formally adopted as national policy. Similarly, it is not possible to analyse the meta-aspect of the HRS, as it had no influence on the structure of the central system. The leadership at the central level neither knew about it nor paid attention to it.

Dopfer *et al*. (2004, 267) state that *micro* involves a change in the composition of rule-carriers and how they interact, while *macro* involves a change in the coordination structure among meso units. According to them, 'Rules are the building blocks of systems that form the micro-structure, or organization, of an economic system. The macro-structure, or order, of an economic system consists of systems of rule-populations, or meso units.' They further explain: 'The economic system is built upon meso; micro and macro are two perspectives that reveal the structural aspects of the changes in the meso populations that constitute the elementary units of the economic system'.

The importance of meso units in their theoretical framework can never be overstated. However, the addition of the meso level to the conventional micro–macro framework has faced criticism. In a thorough, critical yet ultimately constructive review of the ontology of 'evolutionary realism', which Dopfer and Potts present as the foundation of their *General Theory of Economic Evolution* (2008), Jochen Runde (2009: 364) writes:

> While according to D&P's general definition, the 'generic' explicitly comprises the domain of rules and their carrier populations, micro—and therefore micro generic—is explicitly restricted to the individual rule carrier as 'the building block of meso analysis' (D&P 27). D&P cannot have it both ways. Either the general definition of generic needs to be reformulated in a way that avoids reference to carrier populations, or the definition of micro needs to be revised so as to include carrier populations as well as individual carriers.

In response, Dopfer and Potts (2010, 409) defend their conception of the meso level, arguing: 'We maintain that neither generic nor micro needs to be redefined. Generic micro is a member of generic meso (population), and the latter is a component part of a generic macro structure.' They illustrate this as follows: 'For instance, an individual is a member of a meso population, constituting an institution A, and the latter is a component part of an institutional macro

structure composed of many meso institutions A, B, C...' They continue: 'Our argument in the book is arguably more intricate and complex than this, but this simple exposition may suffice to demonstrate that the overall theoretical structure is coherent and does not require redefinition' (Dopfer and Potts, 2010, 409).

For our purposes, this three-level framework offers a valuable analytical tool for examining both the CS and the HRS. We suggest that the concept of 'individual' within the micro meso macro model should be interpreted flexibly. There is no compelling reason why the production team under the CS cannot be considered an 'individual', given that it functioned as the basic unit of production and accounting. Similarly, the household under the HRS which replaced the production team in this role can also be treated as an 'individual' within the same analytical framework. This may create some discrepancy between our interpretation of the framework and its original formulation. However, it is an accepted assumption in legal analysis that a 'legal person' can be the state, a collective, or a household. The crucial point for us is that the three-level micro- meso- and macro-model created by Dopfer *et al*. (2004) is a useful analytical tool and therefore allows considerable flexibility in its application.

Under the CS, a production team operating with specific rules of production and distribution can be understood as a member of a meso level population in Anhui, constituting an institution A. This institution is, in turn, part of a broader macro level institutional structure composed of multiple meso institutions (A, B, C, etc.) across provinces such as Anhui, Henan, and Sichuan. Similarly, under the HRS, a peasant household governed by rules in production and distribution, particularly prior to the abolition of all state taxes and collective reserves in 2006, may also be regarded as a member of a meso level population in Anhui. Like the production team, it constitutes an institution A that contributes to a macro level structure comprising various meso institutions distributed across different regions.

It is worth noting that Dopfer *et al*.'s three-tiered model is not entirely new. According to Dopfer himself, it originates in Joseph A. Schumpeter's proposition that entrepreneurs initiate innovations (micro level), that swarms of followers imitate them (meso level), and that, as a result, 'creative destruction' leads to economic development 'from within' (macro level) (Schumpeter, 1942). For Dopfer, this Schumpeterian insight can be extended into a more general micro–meso–macro framework for economics (Dopfer, 2012).

6. Institutionalising the HRS at the national level (Macro level-a change in the coordination structure among *meso* units)

Historical institutionalism highlights the central role of agency in institutional change (DiMaggio, 1988). Recent work calls for more actor-centred approaches to explain gradual, endogenous change through coalition dynamics (Streeck and Thelen, 2005; Mahoney and Thelen, 2015; Fioretos et al., 2016; Emmenegger, 2021). This study contributes to that agenda by emphasising agency within specific political structures. However, in line with institutional theory, structure retains primacy (Emmenegger, 2021, 608).

The national adoption of the HRS went beyond grassroots and provincial efforts, such as those in Xiaogang and Anhui. Central reformers, particularly Deng Xiaoping and his allies, were essential in legitimising and scaling these initiatives. Earlier attempts under Mao Zedong underscore the limits of local reform without central support. In 1961, Anhui's Party Secretary Zeng Xisheng introduced 'responsibility fields' (*zeren tian*), allowing households to farm individual plots and keep surplus after quotas. Though framed within the commune system, the policy spread quickly and helped mitigate famine. Initially approved by Mao, it was later reversed. By mid-1962, senior figures such as Tian Jiaying, Chen Yun, and Deng Zihui advocated for expanding the model, but Mao rejected it, favouring collectivism. Reformers were removed or marginalised, and the policy was halted (Yang, 2012). This episode illustrates how Mao's ideological position, rather than local success, ultimately determined policy outcomes.

In the post-Mao era, differing views on reform led to the formation of competing factions within the central leadership. Deng Xiaoping's group was the most committed to advancing the Household Responsibility System (HRS), and he strategically promoted key reformers, including Wan Li and Zhao Ziyang, into central positions. Together with Hu Yaobang, they formed a strong alliance under Deng's leadership. Wan Li, a prominent early advocate of rural reform, drew on his investigations as First Secretary of the Anhui Provincial Party Committee—a role assigned by Deng. In late 1977, Anhui introduced the 'Six Policies' aimed at easing rural restrictions. These received national attention, with *People's Daily* publishing a front-page article titled 'The Birth of a Provincial Party Committee Document', followed by a favourable commentary. Deng, then Vice Chairman of the Central Committee, was reportedly impressed. He urged bold thinking and endorsed the pursuit of practical, local solutions.

During a 1979 meeting of the provincial standing committee, Wan Li endorsed the HRS trial. A few months later, while attending the National People's Congress, he reported to Deng on Anhui's reforms and the challenges faced. Deng responded decisively: 'Don't argue, just carry on like this!'—his first clear endorsement of the HRS in Anhui (Zhao, 2021). This informal support from the top was politically strategic, allowing experimentation while minimising resistance. Deng later remarked that China's reforms began in the countryside, and the countryside began in Anhui. His trust in Wan was evident. On a visit to Anhui, Deng held a private conversation with Wan in his car, excluding even senior leaders like Xu Jiatun (Zhao, 2021). As Wan recalled: 'I owe it to Comrade Xiaoping's support… once results appeared, he publicly voiced his support' (2014).

Hu Yaobang and Zhao Ziyang were widely regarded as Deng Xiaoping's closest political allies, often described as his 'left and right arms'. In April 1984, Deng reportedly reassured Japanese Prime Minister Nakasone that "even if heaven should fall, Hu Yaobang and Zhao Ziyang can support it" (Mufson, 1985), underscoring their critical roles. The consolidation of power after the fall of Hua Guofeng saw Deng, Hu, and Zhao assume leadership across the Party, government, and military: Zhao became Premier in September 1980, Hu was appointed Party Chairman in June 1981, and Deng took charge of the Central Military Commission the same day. Hu Yaobang, often called Deng's 'right-hand man', played a pivotal role in

launching the early phase of China's reform programme (Vogel, 2011). Similarly, Zhao Ziyang rose rapidly through the Party ranks between 1977 and 1980 and, as Premier, led major rural and economic reforms (Chang, 1981). Together, Hu and Zhao were instrumental in implementing Deng's modernisation agenda, shaping China's transition toward a more market-oriented economy (Lieberthal, 2004).

Wan Li and Zhao Ziyang both cultivated personal networks to support and advance reform. Zhou Yueli, who had served as personal secretary to Zeng Xisheng, became a key ally of Wan Li during Anhui's reform efforts. Wan also promoted several Anhui associates, including Wu Xiang, Zhang Guangyou, and Wang Yuzhao, to important positions in Beijing. Meanwhile, Zhao Ziyang brought Du Runsheng, former secretary to Deng Zihui, into his inner circle. Du later held dual roles as Director of the State Agricultural Commission and member of the CCP's Rural Policy Committee.

Following the political marginalisation of Deng Zihui and Zeng Xisheng under Mao, figures such as Du Runsheng and Zhou Yueli, both former personal secretaries, came to represent the 'losers' of earlier institutional struggles. As Capoccia (2016, 1111) notes, such actors often mobilise to place reform on the political agenda. This insight is supported by broader institutionalist research, which shows that gradual institutional change frequently arises from shifting coalitions led by previously sidelined actors (Thelen, 2004; Mahoney and Thelen, 2010; Thelen, 2014). The Chinese case exemplifies this dynamic. Wan Li's promotion of reform-minded allies such as Wu Xiang and Zhang Guangyou demonstrates how political entrepreneurs leveraged personal networks to advance institutional transformation.

William Riker's (1962) minimal winning coalition theory argues that actors form alliances just large enough to secure victory while maximising power or rewards. Although debated (Boston, 2011; Browne 1971; Butterworth, 1974; Hardin, 1976; Shepsle, 1974), this framework helps explain Deng Xiaoping's alliance building during post Mao rural reforms. Deng's key allies Wan Li, Zhao Ziyang and Hu Yaobang acted as political entrepreneurs, challenging existing structures. Their combined influence shaped national policy and established the HRS. Coalitions are key to understanding how these changes occur, as they mobilize support or opposition to shape institutional futures (cf. Zhao, 2016).

However, a key limitation of Riker's model is that it lacks a dynamic perspective and does not account for the later marginalisation of Hu Yaobang and Zhao Ziyang by Deng Xiaoping. The coalition between Deng and his allies was hierarchical and unstable rather than stable and equal. Deng replaced Mao's successor Hua Guofeng and, with support from the Chen Yun group, shifted focus from class struggle to economic development. He and his allies advanced household-based production, culminating in the formal establishment of the HRS. When Deng viewed Hu and Zhao's reform agendas as threats to political and social stability, he removed them from power.

6.1 Wan Li's elevation to China's central government

The political success of Deng Xiaoping played a pivotal role in advancing rural reform. In late February, the Fifth Plenary Session of the 11th Central Committee of the Chinese Communist Party was convened. Although it did not specifically address agricultural issues, it marked a major turning point in the leadership structure. The session established a new organisation, the Central Secretariat, with Hu Yaobang entering the Politburo Standing Committee as General Secretary, Zhao Ziyang joining the Standing Committee and taking charge of government affairs, and Wan Li appointed Secretary responsible for rural matters. Clemens and Cook (1999, 459) observe that 'challenges faced with the constraints of existing organisational schemas may simply invent new ones.' The establishment of the Secretariat exemplifies this principle.

Reforms designed to strengthen Hua Guofeng's authority encountered resistance within the existing organisational structure of the Central Committee, which Hua simultaneously led as party leader, premier, and head of the military. Consequently, the Secretariat was re-established in 1980. Although this appeared to be a new institution, it was in fact a revival—it had been abolished in 1966, with its functions temporarily absorbed by the Central Office of Management (Fu, 1983: 201). Appointments to the Secretariat require nomination by the Politburo Standing Committee and subsequent approval by the Central Committee (Ogden, 2013: 24). When political entrepreneurs attempt to transform key institutions, they face heightened pressure to embed their proposals within familiar frameworks. As Riker (1995, 121) argues, 'no institution is created de novo,' and the most ambitious innovators may well cloak their reforms in rhetoric of restoring tradition (Skowronek, 1993; Fligstein, 1996; Fligstein and Mara-Drita, 1996; Ikegami, 1995, 364; Pedriana and Stryker, 1997, 679; Skrentny, 1996,154–158).

This meeting created a new senior power structure, marking a critical shift in high-level decision-making. Wan Li, Zhao Ziyang and Hu Yaobang subsequently formed a pro-reform leadership coalition (Watson, 1983, 730 n.133; Wu, 2016, 70). Although the National People's Congress Standing Committee did not officially remove Wang Renzhong as Vice Premier and Director of the National Agricultural Commission or appoint Wan Li to these roles until late April, Wan had effectively assumed leadership over rural affairs by early March. On 28 March, he visited the National Agricultural Commission to meet staff and receive reports. At the April 1980 meeting of the Standing Committee of the National People's Congress, Zhao and Wan were formally appointed vice-premiers of the State Council.

Meanwhile, supporters of Hua Guofeng's 'Two Whatevers', namely Wang Dongxing, Wu De, Ji Dengkui and Chen Xilian, known collectively as the 'Little Gang of Four', were removed from the Politburo Standing Committee (Forster, 1992; Harding, 2010). In Chinese governance, the Politburo of the CCP Central Committee and the Standing Committee of the State Council are commonly referred to as 'the Centre' (for the connection between the CCP and the Politburo, see Appendix Diagram 1). As political and economic entrepreneurs, Hu Yaobang, Zhao Ziyang and Wan Li emerged as the core of a group of roughly 30 top leaders responsible for policy formulation. Over time, their leadership contributed to the development of an elaborate institutional structure that shaped both economic and political performance (Lieberthal and Oksenberg, 1988; cf. Hu, 1996).

In addressing how societies solve new and unfamiliar problems, North (2005, 167) argues that success depends on two factors: how adaptable people are to novel challenges, and how novel those challenges truly are. He notes that while some individuals may grasp the real nature of a problem, they often lack the power to enact change: 'It is necessary that those who make the political decisions have such vision; yet it is not self-evident that the polity tends to "install" such people in the decision-making role' (North, 2005, 167). In China's case, however, reform-minded leaders such as Wan Li were, fortunately, promoted to policymaking roles. As Fewsmith (1994, 41) observes, 'the person who had pushed agricultural reform more resolutely than any other leader in China was thus put in charge of agricultural policy'.

'According to the usual political speculation, it was logical to believe that the rural policy in Anhui had been formally endorsed by the centre,' Zhao (2017, 57) observed. Yet the process proved more complex than expected, requiring close attention to the timing of Wan Li's appointments. He may have anticipated a leadership role in Beijing following the October 1979 provincial first secretaries' conference or the Fourth Plenary Session (Teiwes and Sung, 2011, 175). At the Fifth Plenary Session in February 1980, Wan was formally approved as part of the CCP's top leadership restructuring. He joined the new Central Secretariat and was given responsibility for agriculture. In March, he replaced Wang Renzhong as head of the party's Finance and Economics Leadership Group. In April, he succeeded Chen Yonggui as vice-premier in charge of agriculture (Teiwes and Sun, 2016, 141 n.47). However, it was not until late August, following approval by the National People's Congress, that Wan formally assumed the vice-premiership and concurrently became director of the State Agricultural Commission (Wu, 2016, 73). Thus, from February to August, he effectively led agricultural policy without holding all formal titles.

During this period, Wan Li actively sought support from other senior leaders. In late May 1980, he and Hu Yaobang travelled together to Tibet, where they held extensive discussions and reached broad agreement on key issues related to reform. On the HRS, Wan voiced his frustration: 'The peasants' actions are just, yet our support for them has become an act that violates the constitution and goes against the central government's decisions. How can this continue?' Hu Yaobang responded: 'This is a major issue of the moment. The countryside may be the biggest breakthrough for the entire reform. I had thought about it but still overlooked it. I cannot understand the urgent feelings of hundreds of millions of peasants about the HRS as well as you do. From now on, I will work with you to solve this problem together' (Wu, 2001).

There was fierce resistance to the HRS in the spring and early summer of 1980. The political conflict centred on whether 'production contracted to individual households' and 'household responsibility' were socialist or capitalist (Bo, 2007, 224; Zhao, 2017, 57). A leader from the Chuxian prefecture party committee prepared an article for *The Rural Work Communication*, an official publication of the National Agricultural Commission, to appear in the second issue of 1980. But just before publication it was withdrawn (ibid). Instead, *The Rural Work Communication* published public criticisms such as 'Dividing land for individual farming must be corrected', attacking Anhui's contracting of production to households (Zhao, 2007, 58). The third issue included 'Whether household responsibility upholds public ownership and

distribution according to work?', which challenged Wan's position from the Anhui agricultural work conference — where he had argued that 'production contracted to individual households is not individual farming but a form of the responsibility system' (ibid). That article labelled the household responsibility system as violating both 'the centre's decision' and 'the constitution' (Bo, 2007, 226).

In early March, after reviewing critical articles published in *The Rural Work Communication*, Wan Li instructed Zhang Guangyou, a Xinhua journalist, and Wu Xiang, then director of the Anhui provincial party committee's policy research office, to draft a fact-based article in defence of the household responsibility system. Titled 'The responsibility system based on grain output has many advantages', the piece was to be published in the *Anhui Daily* under the name of the provincial party committee's Agricultural and Industry Department. Although submitted for review, publication was ultimately blocked (Zhang, 2007, 204–5). After Wan's promotion to the central leadership, however, the Anhui authorities reversed course (Zhao, 2017, 59; Teiwes and Sun, 2016). Beginning in April 1980, the new provincial leadership held four meetings in Bengbu, Wuhu, and Chaohu, launching 'four waves of criticism' of the household responsibility system (Zhao, 2017, 58). At one of these meetings, a provincial representative declared: 'Although the household responsibility system has increased production, it is not the correct direction. Cadres above the county level should remain clear-minded and avoid the error of opportunism' (Wu, 2016, 72).

There were many attacks on the Household Responsibility System (HRS) for altering the direction of rural policy. One critic argued, 'The key part of the household responsibility system is "division", not "responsibility". It is no different from dividing land and farming individually, which not only means a return to capitalism, but to feudalism — to thousands of years ago' (Wu, 2016, 72). Others claimed that if the system became widespread, 'there would be no collective management, no basic construction, no space for scientific farming, and socialism in the countryside would collapse' (ibid). Some went further, suggesting that while the HRS seemed promising in terms of productivity, it was 'hateful when looking at the direction of the nation', and that 'farmers only appreciate immediate results. Their support for the household responsibility system reflected a selfish, backward mindset that abandoned socialism as the nation's compass' (ibid).

Zhang Jinfu, then first secretary of the Anhui provincial party committee, declared in a speech on 24 April 1980: 'Those who play around with sophistry to insist that household contracting is not individual farming will sooner or later get their come-uppance' (Wang, 2000, 332; quoted in Teiwes and Sun, 2016, 146). This posed a direct political challenge to Wan Li. As Teiwes and Sun (2016, 146) note, 'Zhang's speech was deeply disturbing for reform-oriented officials, and Chuxian leader Wang Yuzhao was reportedly thrown into a state of near panic.' For Wan, it was tantamount to a fire in his own backyard.

6.2 Deng Xiaoping's support of the HRS

At this critical juncture, Deng Xiaoping, the supreme authority at the time, made a decisive move. In March 1980, Wan Li met with Deng and reported on the situation in Anhui (Wu, 2016, 58). Wan then instructed Zhang Guangyou and Wu Xiang to document their observations and submit an internal report to selected officials. The report was delivered in instalments, with copies provided to Deng and the Politburo each morning from 27 to 30 May. Deng reportedly read the instalments carefully before issuing a new statement endorsing household contracting and supporting Wan's position, with particular reference to Anhui (Wang, 2000, 333; Zhang, 2007, 235ff; Teiwes and Sun, 2016, 147; Zhao, 2017, 59).

When asked by Vice Premier Yao Yilin how to improve grain supply, Du Runsheng proposed household responsibility farming, an idea he originated. Du explained that in poor regions where grain was allocated for relief, but transport was difficult, farmers often consumed much of the grain themselves while carrying it long distances, resulting in high state costs and limited benefits for farmers (Du, 2005, 114). He suggested allowing farmers to take responsibility for both production and consumption, benefiting both parties. Yao Yilin immediately supported the proposal. On 2 April 1980, Wan Li and Hu Yaobang attended a briefing to Deng Xiaoping on planning work, during which Yao made further remarks.

> Both industry and agriculture must shed some burdens. Comrades from the Agricultural Commission have noted that provinces like Gansu, Inner Mongolia, Guizhou, and Yunnan receive large grain allocations from the central government, placing heavy strain on the state. Considering these regions are vast, sparsely populated, economically underdeveloped, and impoverished, more flexible policies should be considered. This might include allowing systems such as household responsibility farming and encouraging local solutions to reduce the state's burden (Du, 2005, 114).

Yao believed that contracting with households would benefit the Centre by helping it shed many heavy burdens. Deng Xiaoping responded:

> In some cases, production could be contracted to groups, in others to individuals. There is no need to fear this—such measures will not undermine the socialist nature of our system. We must emancipate our minds on this issue and not be afraid. In these regions, policy must guide us. Indeed, agriculture nationwide will need to rely on policy in the coming years. I have seen much encouraging material like this. We must free our thinking! …I ask Comrade Wan Li to study this issue further and submit it to the Secretariat for discussion (Zhang, 2007, 206).

This conversation underscored the need to further relax policies in impoverished regions of the southwest and northwest. Notably, the language was cautious using phrases like 'some may be contracted to groups, some to individuals' without explicitly mentioning household responsibility farming or referring to Anhui province.

On 9 April 1980, the second edition of *People's Daily* published an article by Wu Xiang and Zhang Guangyou titled 'The Benefits of Linking Production Responsibility to Output' (*People's Daily*, 1980). Both authors, whom Wan Li had brought from Anhui to the Central

Secretariat's research office in Beijing, expressed his reformist ideas. Responding to societal criticisms that linking production responsibility to output was a 'matter of direction or path' and a 'regressive step' potentially leading to social polarization, the article argued that production responsibility linked to output is more effective than unlinked responsibility in improving attendance, raising labour efficiency, enhancing the quality of agricultural work, and achieving greater output. It insisted that implementing production responsibility joined to output is not a regression. The article further stressed that production relations must adapt to the level of productive forces, a basic Marxist principle: 'If this is called regression, then it is precisely a return to a condition suitable for the development level of productive forces. It is a step forward in people's understanding toward concrete reality. It is an advancement in management toward accordance with objective laws.' Moreover, it stated that practice had shown linking production to output had not led to social polarization. On the contrary, it has created conditions for expanding production and achieving common prosperity.

This article was a reasoned rebuttal, commissioned by Wan Li, to criticisms of household contracting published in *Rural Work Communications* (issues 2–3, 1980). After drafting, Wan reviewed the article himself. Although he initially proposed publishing it under the name of the Anhui Provincial Party Work Department in the *Anhui Daily*, Zhang Jinfu, then First Secretary of the provincial Party Committee, refused this. As a result, the article was published in *People's Daily* under the authors' names: special correspondent Wu Xiang and correspondent Zhang Guangyou. Despite its clear support for linking production responsibility to output and its push for reform, the article did not gain theoretical dominance due to the broader political climate. Debates over policy and implementation continued to intensify.

Hu Qiaomu, then Secretary of the Central Secretariat responsible for propaganda and theory, was dissatisfied with the article. When *Responses to Journalists' Questions by a Leading Official of the State Agricultural Commission*, drafted by Du Runsheng under Zhao Ziyang's instruction, was sent to *People's Daily* for publication, Hu wrote two long letters to Mu Qing, Director of Xinhua News Agency. He issued instructions not to publish the article on household responsibility farming. On 10 May, Hu commented: 'I have read the draft on household responsibility farming. Since *People's Daily* had already published an article and an editorial on this topic in early April—which sparked some debate—and since this draft essentially does not go beyond the scope of that article, I believe it is best not to publish it internally or externally for now' (quoted in Zhao, 202, 14). On 11 May, Hu issued another directive: 'What I said was not merely a personal opinion. The Central Committee intends to formally discuss the issue after some time, based on experiences and opinions from various provinces, and to make a decision if necessary' (quoted in Zhao, 2021, 14).

On 31 May 1980, targeting Hu Qiaomu and Deng Liqun, then Director of the Secretariat's Research Office, Deng Xiaoping criticised them and other senior Party cadres for their outdated thinking and lack of ideological emancipation (Wu, 2013, quoted in Zhao, 2021: 15). Deng met with Hu and Deng Liqun at his home to discuss the issue of contracting production to households (*banchan daohu*). The conversation was later compiled into a transcript by Deng Liqun for internal circulation. This document, titled *On Questions of Rural Policy*, captured

Deng Xiaoping's endorsement of the creativity shown by peasants in Feixi and Fengyang counties in Anhui. He stated:

> Since rural policies have been relaxed, some places that are suitable for household contracting have implemented it. In Feixi County in Anhui the great majority of production teams have contracted production to households, the results have been very good and the changes very fast. The vast majority of production teams in Fengyang County, where the "flower drums of Fengyang" are sung, have engaged in contracting to small groups *(da baogun*); they have transformed (*fanshen*) themselves and changed their circumstances in a year (Deng, 1984, 315).

He emphasised: 'Generally speaking, the main obstacle in dealing with current problems in the countryside is an insufficient amount of ideological freedom' (Deng, 1984, 316). *People's Daily* (1981) reported Deng's stance on the household responsibility system (HRS), quoting him as saying: 'We should let every family and every household think up its own methods of doing things, and let them find more ways to raise production and increase income.' Zhao Ziyang echoed Deng's view, signalling his openness to institutional innovation: 'We should feel free to adopt all those structures, systems, policies, and measures which can promote the development of production, and not bind ourselves as silkworms do within cocoons' (quoted in Shambaugh, 1984, 122). Some critics later argued that Deng may have misunderstood *da baogan*, as his comments were more aligned with 'contracting production to groups' rather than to individual households. As Zhao clarified:

> From a comparative textual analysis, it is clear that when Deng Xiaoping referred to group-based contracting (*baogan daozu*) or *da baogan* (large-scale contracting), he was not referring to household-based responsibility contracting (*baogan daohu*), but rather to group-based arrangements. The former retained the production team as the basic unit of collective operation and did not fundamentally repudiate the collective economic system. In contrast, *baogan daohu*, or household responsibility contracting, went further by granting individual households comprehensive autonomy over production, management and distribution. This shift laid the institutional foundation for the household contract farming system and, in effect, dismantled the production team-based collective economy (Zhao, 2021, 17; see also Teiwes and Sun, 2016).

Nonetheless, this marked the strongest support the household responsibility system had received to date. For example, Wang Yuzhao, secretary of the Chuxian prefecture party committee, publicly defended the HRS after a provincial leader shared with him the transcript of an internal speech by Deng Xiaoping (Bo, 2007, 230; Wang, 2009, 6). However, in this region, which had previously been a stronghold of Maoist orthodoxy, tensions remained high and ideological divisions were far from resolved. Ultimately, an official from the Provincial Party Committee closed the meeting by reiterating Deng's remarks (Wu, 2016, 73).

Even with Deng Xiaoping's endorsement, implementing radical institutional change was far from easy for Wan Li. However, without Deng's support, rural reform would have been impossible. As Wan later reflected:

> The rural reform in China could never have succeeded without Deng Xiaoping's support. In the struggle during late spring and early summer of 1980, the fire of household responsibility that

> was burning in Anhui could still have been extinguished without Deng Xiaoping's remarks. It was useless for us to approve the household responsibility system, because without Deng Xiaoping's support it still could have been overturned (Wan, 2014, 19, quoted in Zhao, 2017, 70).

Wan Li's reflection was accurate. For example, when Wang Yuzhao learned of Deng Xiaoping's speech, he used Deng's words to challenge his superiors who opposed contracting land to individual households (Wu, 2016; Teiwes and Sun, 2016). In mid-June 1980, a central government leader wrote *A Letter Regarding the Current Reform in the Countryside* and sent it to Wan, with a copy to Hu. The letter summarised the experience of Mengjiaping in Mizhi County, northern Shaanxi, where a system of fixed output quotas based on individual labour had been implemented. It urged the State Agricultural Commission to organise county-level cadres to investigate and study the household responsibility system, and to act in line with the spirit of Deng Xiaoping's speech (Wu, 2016, 73).

6.3 Wan Li and Hu Yaobang's effort to promote the HRS

In late May, Wan Li and Hu Yaobang travelled together to Tibet, providing ample opportunity for discussion. They found strong agreement on key issues of reform and opening-up. On household responsibility farming, Wan expressed frustration: 'The actions of the peasants are just. Yet by supporting them, we are accused of violating the Constitution and contravening central policy—how can this go on?' Hu responded: 'This is a major issue. The countryside may well be the breakthrough point for reform. I have considered it, but underestimated it. You understand the peasants' urgent desire for household responsibility farming far better than I do. From now on, I will work with you to resolve this problem' (Wu, 2001). Hu Yaobang thus became a firm supporter of Wan Li, who found in him a strong ally for advancing rural reform (Wu, 2001; Zhao, 202,19).

Wan Li raised a critical question: why was it necessary to legitimise the HRS and codify it into authoritative legal documents such as the Constitution, especially when doing so appeared to contravene central policy? When he supported peasant-led experiments in Anhui, farmers frequently requested official documentation to protect their initiatives. This raises broader questions about the legal constitution of economic institutions under socialism. Was Wan Li giving sufficient attention to the role of law, not only in enforcing rules but in constituting economic relations such as the HRS? Moreover, what counts as 'law' in this context? Does it include documents issued by the Central Committee of the Chinese Communist Party (CCP)? Should foundational policy texts such as the Draft Regulations on the Work of the Rural People's Communes (commonly referred to as the 'Sixty Articles', adopted at the Central Work Conference on 22 March 1961 under Mao Zedong), and the Draft Decision on Several Issues Concerning the Acceleration of Agricultural Development together with the Trial Draft of the Regulations on the Work of the Rural People's Communes (adopted by the Third Plenary Session of the 11th Central Committee in December 1978), be considered part of China's legal-institutional framework? These documents explicitly stipulated the 'two prohibitions': 'no division of land into individual holdings; no household-based production contracting'. If so,

does this mean Wan Li's support for peasant-led initiatives involving individual production and distribution contracts was, at the time, unlawful or at least extra-legal?

This raises a broader theoretical concern: the distinction between 'political' and 'legal' institutionalism. Are the 'two no's political or legal rules? If they are political rules, why did peasants in Xiaogang keep their agreement secret? Why did they fear imprisonment or even execution? What constituted the legislative apparatus in China at that time? Was it the Central Committee of the Chinese Communist Party (CCP)? The Politburo of the Central Committee? The Standing Committee of the Politburo? Or perhaps the Central Secretariat of the CCP? Although a National People's Congress existed, its legislative authority during this period was largely subordinate to the Party's central leadership. In their study of developed capitalist economies, Deakin *et al*. (2017, 189) observe that law is not simply an expression of power relations but is also a constitutive part of the institutionalised power structure and a major means through which power is exercised. This insight is equally relevant to China, a socialist state that continues to uphold the principle of socialism with Chinese characteristics. The Chinese case highlights the complexity of how law, broadly conceived, not only functions as an instrument of enforcement but also serves as a constitutive framework for institutional transformation. The key difference, however, lies in the fact that the policy of the Chinese Communist Party at that time is treated as equivalent to law, becoming part of the power structure of society and a major means through which political authority is exercised.

We shall later see that the five No. 1 Documents, issued under the leadership of Hu Yaobang, then General Secretary of the Chinese Communist Party, effectively served as five 'statutes', forming the legislative and institutional foundation for the Household Responsibility System (HRS). Over time, the HRS was incorporated into the Chinese Constitution and subsequently codified in various laws, such as the Rural Land Contract Law (2002) and the Property Law (2007). Chinese peasants also praised these documents as 'reasonable, appropriate and fair', borrowing from Deakin et al.'s words. As Deakin *et al*. (2017, 189) observe, 'The very success of Western capitalism depends on the development of general national systems of legal enforceability. But these took a long time to establish.' This insight is equally applicable to China. It is reasonable to argue that the success of Chinese socialism has similarly depended on the gradual development of national systems of legal enforceability, an evolutionary process that has taken over seventy years and continues to unfold. Although the HRS was originally created by Chinese peasants, as acknowledged in the No. 1 Documents, its widespread adoption was ultimately the result of state policy decisions and legal codification. The power of the state was never absent; it could either resist grassroots initiatives or choose to sanction and institutionalise them. Its implementation, in particular, required the authority and capacity of a strong state to transform local experiments into a national framework.

Deakin *et al*.'s legal institutionalism, like other institutional approaches, emphasises the importance of social rules. As they state, 'Indeed, rules are the stuff of social life and institutions are essentially systems of shared social rules.' As Dopfer, Foster and Potts (2004, 263) put it: "an economic system is a population of rules, a structure of rules, and a process of rules." … Legal institutionalism adds to this the further claim that many of the more important

and powerful rules are legal in character, and they are backed by the power and authority of the state' (Deakin *et al*., 2017: 198). Political institutionalism similarly argues that rules, whether economic or legal, must be constituted by the power and authority of the state. Political struggle centres on gaining state power to reflect the political will and beliefs of those who control politics, backed by the society's physical force. Many of the most important and powerful rules are political in character and often mistaken for legal rules. Institutional change can be driven by political rules, but its eventual dominance requires translation into legal rules. Changes to legal rules can only be achieved through political rules or choices. This is evident in the institutional transformation from the CS to the HRS. As Deakin *et al*. (2017, 198) notes, 'legal institutionalism addresses the difficult research question of what kind of rules are appropriate for each particular circumstance. Given the complexities and uncertainties involved, such an approach must be cautious and experimental, and cannot proceed on the basis of complete prior design.' Political institutionalism must be grounded in empirical and historical research, emphasising the role of the state in legal and economic systems, as well as the constitutive role of politics in social and economic life. The legislation and establishment of the HRS exemplify this point. Indeed, there is a need to 'bring the state back in' (Evans *et al*., 1985). However, attention to the state and law should not come at the expense of the political process.

Document No. 75 (1980)

As Wan Li had been the first secretary of the Anhui Provincial Committee of the CCP, he understood that the success of establishing the HRS depended on the attitudes of provincial first secretaries (Wu, 2016). Although both Hu and Wan held central positions of authority, reforming the Commune System required broader support and changes to central policy. Wan Li proposed convening a meeting of provincial Party secretaries to discuss the issue in depth, emphasising that the key to resolution lay in the provincial leaders' attitudes. To ensure the meeting's success, Wan and Hu agreed to visit several provinces separately to prepare local Party leaders. In July and August, Hu travelled to the northwest while Wan visited the northeast. Despite seeking allies, they faced fierce opposition from those who believed collective production was inherently socialist and therefore the correct path. This confirms a core insight of institutional theory: institutions constitute actors (Meyer and Jepperson, 1999). Historical institutionalism further shows that challengers, starting from a minority position, must build a coalition strong enough to displace incumbents (Emmenegger, 2021, 617).

Shortly after the shift in central leadership appointments, a conference on the HRS was held from 14 to 22 September 1980, attended by the first secretaries of Party committees from each province, city, and autonomous region. At the meeting's start, the HRS lacked majority support. As Wu (2016, 74) notes, 'only a small number of people, such as Ren Zhongyi, Zhou Hui, and Chi Biqing, members of the 12th Central Committee of the CPC, expressed clear approval, while others remained silent.' During the conference, Yang Yichen, Secretary of the Heilongjiang Provincial Party Committee, and Chi Biqing, Secretary of the Guizhou Provincial Party Committee, debated the issue of the 'open road versus log bridge' (Wu, 2016, 75). The differing views of agricultural ministers became publicly apparent. Du Runsheng, Deputy

Director of the Agricultural Commission, gave a special report arguing the HRS should be a temporary or special policy to address food shortages in impoverished areas. Zhang Pinghua, also Deputy Director of the Agricultural Commission, responded, noting that although the document had been discussed by the Commission, Du's speech had not, making the implication clear (Du, 2005, 118). Other deputy directors, Li Ruishan and Zhang Xiushan, largely agreed with Zhang. Most other ministers from related departments, including Agriculture, Agricultural Machinery, Agricultural Reclamation, Water Resources, and the Supply and Marketing Cooperative, also opposed the HRS (Zhao, 2016, 11).

The debate centred not only on conflicting interests but also on ideology, particularly whether the HRS was socialist or capitalist. Some argued that 'the key part of the household responsibility system is "individual", not "responsibility"', while others warned that if it became the norm, 'people's goals would be scattered, collective management would collapse, basic construction would stall, scientific farming would falter, and socialism in the countryside would be destroyed' (Wu 2016, 75–76). At this point, Du Runsheng proposed an innovative solution: framing the HRS as a means to alleviate rural poverty by softening ideological disputes. As Clemens and Cook (1999, 458) note in their study of institutions as eliminating alternatives, 'if ideological power is weakened, alternatives become imaginable'. This reframing enabled compromise between opposing sides. It exemplifies 'the processes of conflict and innovation that are central to politics' (Campbell, 1998; DiMaggio, 1988; Hicks, 1995; Hirsch and Lounsbury, 1997; Stryker 1999; cf. Clemens and Cook 1999, 442). Major conflicts often provoke innovative responses that drive significant institutional change.

Despite opposition from over two-thirds of provincial secretaries, the persistence of Zhao Ziyang and Wan Li led to the successful adoption of *Some Problems in Further Strengthening and Improving the Agricultural Production Responsibility System*, known as 1980's Document No. 75. This document allowed 'various forms of business transactions, different labour organisations, and a variety of payment methods to coexist'. It advocated a flexible approach, 'not rigidly adhering to a pattern, nor rigidly abiding by uniformity' (quoted in Wu 2016, 75). Moreover, it stated that 'the household contract is a necessary step to increase production and ensure adequate food. As for the country, there is no risk of restoring capitalism, and therefore, nothing to fear' (CCCPC, 1982, 667–668). Clemens and Cook (1999, 460) observe that 'the presence of alternatives created a space for political action and policy innovation'. Institutional entrepreneurship is further complicated when new political developments must be interpreted and legitimised by multiple audiences (Ellingson, 1995; Stryker, 1999). As Padgett and Ansell (1993,1263) argue, 'robust action' relies on 'multivocality – the fact that single actions can be interpreted coherently from multiple perspectives simultaneously'.

Document No. 75 was a compromise, reflecting conflicting opinions (Wu, 2001, 156). It was claimed that the HRS 'will not leave the track of socialism,' but it did not confirm that it was 'the responsibility system of the socialist collective economy.' While the system was not rejected, its role was emphasised in alleviating poverty in underdeveloped regions, stating that it 'must be implemented under the directives of production teams' and would lead to 'socialist commercialism, with the collective economy as the absolute winner' (Wu, 2016, 76). This

clearly represented a compromise, allowing both sides to interpret it in ways that suited their interests. Although Wan Li, Hu Yaobang and Zhao Ziyang held positions capable of driving institutional change, effective control requires legibility of the world to be governed (Clemens and Cook, 1999, 454). As Scott (1998, 2) argues, 'legibility is a central problem in statecraft.'

Power is a defining characteristic of institutions in theories of endogenous institutional change (Mahoney and Thelen, 2010, 7–8; Streeck and Thelen, 2005, 9–12). As Capoccia (2016, 1110) observes, 'rule-makers, by virtue of formal institutional power alone, are generally not in a position to change those institutions by fiat or to resist any pressure for change coming from rule-takers'. Although Wan Li, Zhao Ziyang and Hu Yaobang were in political positions that enabled them to shape rules, they could not compel provincial first secretaries or ministers to accept the HRS. Capoccia (2016, 1101) also rightly notes that a more complete account of the politics of institutional change should recognise that, under certain circumstances, the power asymmetries built into institutional arrangements influence the dynamics of social coalitions either in favour of or against institutional stability. In this context, the asymmetries of power embedded in the formal political positions of Wan Li, Zhao Ziyang and Hu Yaobang shaped the formation and alignment of social coalitions in favour of the HRS and against the collective system.

Wan Li was dissatisfied with the outcome of Document No. 75. He regarded it as a compromise and ultimately found it unsatisfactory, as the Household Responsibility System (HRS) had already become a practical reality in some regions. Rather than introducing any truly new measures, the document simply acknowledged and adapted to existing developments. In Wan's view, its main merit lay in its emphasis on *yīndì zhìyí*—the principle of tailoring rural policy to local conditions. Although the document continued to reject the HRS at the level of political theory and official direction, its endorsement of *yīndì zhìyí* effectively created political space for future policy breakthroughs. Wan's evaluation reflects both a higher-level political vision and notable administrative skill. Given the political and social constraints of the time, it was likely the best outcome he could realistically secure. This episode illustrates a typical case of incremental institutional change, shaped by path dependence (North, 2005).

In analysing the politics of institutional change, Clemens and Cook (1999, 459) argue that the existence of multiple institutional orders or alternatives creates opportunities for agency (Sewell, 1992, 19). In such contexts, political entrepreneurs may negotiate competing expectations or embed their initiatives within existing institutional frameworks (Friedland and Alford, 1991; Pedriana and Stryker, 1997; Skowronek, 1993). Central to these arguments is a distinctive form of political action: 'The essence of institutional entrepreneurship is to skilfully align an organisational form and the institution it embodies with the master rules of society' (Haveman and Rao, 1997, 1614; see also Swidler, 1986). Wan Li exemplified this role, acting as a political entrepreneur by strategically institutionalising the HRS within the prevailing socialist framework.

Wan's promotion of the HRS at a national level in 1981

All forms of the household responsibility contract system evolved quickly, but Fengyang's model became the most widely adopted. As people from Fengyang said, 'Give enough to the state, keep enough for the group, and the rest is for ourselves' (Wu, 2016, 76). However, it also faced strong criticism. Opponents viewed people's communes as the cornerstone of a socialist nation and considered the HRS merely a temporary measure to alleviate poverty, eventually destined to become obsolete. They claimed, 'Fixed farm output quotas will be fast in the first year, slow in the next, and dead in the third; raise production in the first year, level out in the second, and give nothing in the third' (Wu, 2016, 77). Some peasants, however, were more positive about the HRS and believed: 'Rather groups than teams, rather households than teams, no stability without the household responsibility contract system' (Wu, 2016, 77).

Government leaders, especially the first secretaries of Provincial Party Committees, played a pivotal role in either promoting or hindering the spread of the HRS. As Wu observes, 'Wan Li was acutely aware that problems occurring down below had their root up top' (Wu, 2016: 81). Wan Li was determined to address leadership issues, so he appointed Lin Hujia as Minister of Agriculture because of Lin's extensive experience in rural affairs and his previous leadership of Beijing, Tianjin and Shanghai (ibid).

On 2 and 11 March 1981, Wan Li chaired consecutive meetings of the Party leadership groups of the Ministry of Agriculture and the State Agricultural Commission. At both meetings, he sharply criticised the rural policy departments, adopting a firm tone: "You are not working with the masses to find ways to improve their lives and develop production. You are simply copying Dazhai, blindly chanting its slogans, conducting no investigation, and forcing through impoverished transitions; this is habitual." He continued, "When the peasants go hungry, none of you say a word; when they have enough to eat, none of you seem happy. When peasants try household-based farming, you sit upstairs making judgements, saying they are undermining socialism. That's your kind of socialism, but the peasants don't want that kind of socialism." He further declared, "The Ministry of Agriculture has become a stubborn bastion of leftist policies." Not long before, someone from the Ministry said that central decision-making was now "anti-Dazhai," meaning "dividing land for individual labour" and implementing "capitalism." Some cadres in the Ministry simply could not be convinced, not even by the abundance of facts from practical experience (Wan, 1996, 113). Wan Li even named and criticised specific ministers.

He demanded that senior rural policy cadres 'go down to the countryside for two months of investigation, to experience directly what the peasants are thinking and doing. Once you go, you'll see a vibrant and energetic situation' (Wan Li, quoted in Zhao, 2021b). When some officials opposed him, Wan responded:

> The Ministry of Agriculture is under the State Council, not free to do whatever it wants … In the past, the whole nation was Learning from Dazhai, but now things have changed … and people aren't suffering so much hardship, but some leaders still haven't transitioned well from Learning from Dazhai (Wan, 1996, 113).

He continued:

> They're not thinking about the last 30 years, during which the task of staving off hunger in the rural population could not be accomplished. Now that there's a light of hope in solving this, we've hit an ideological block … They don't even care for hungry stomachs (Wan, 1996, 113).

Following Wan's directive, Du Runsheng, Vice-Director of the State Agricultural Commission, organised more than 140 officials from key rural departments, including over 20 at ministerial level, into 15 research teams to conduct a survey across 15 provinces on the implementation of the HRS. Beginning in April, they carried out two months of fieldwork in the countryside. In mid to late June, the teams returned to Beijing to report to their respective departments. This investigation became known as the rural policy rectification campaign within the central apparatus and marked a key turning point in the policy climate of agricultural institutions.

The findings revealed that most people recognised its advantages, and ideological consensus was growing. However, many continued to perceive the system as a departure from collectivism and an embrace of capitalist principles. During their investigations, officials became convinced of the practicality of the HRS. For instance, Shangqiu in Henan Province and Heze in Shandong Province, two vast poverty-stricken areas with large populations, experienced relatively good yields in 1980. They concluded: 'People worked with enthusiasm, weather conditions helped a little, and policy changes brought a rich harvest of grains' (quoted in Wu 2016, 84). Regarding the HRS, peasants remarked: 'With the household responsibility system, we went to the market as many times as we did before; there was enough excitement for all, enough work to be done, and no loss in food grain' (quoted in Wu, 2016, 83–84).

On 18 July 1981, in the Fourth Meeting Room of the State Council's North District in Zhongnanhai, Vice Premier Wan Li listened to reports from more than ten ministers and deputy ministers of agricultural departments on their rural investigations. The meeting lasted the entire day. In his concluding remarks, Wan Li stated: 'Over the past three years, it has essentially been a struggle between reform and anti-reform. It has been a major course correction in agriculture. The problems have not been fully resolved, and the struggle remains quite intense' (Wan, 1981). If it is true that the HRS underwent two major policy breakthroughs in its development, then the shift from an explicit prohibition of household responsibility to permitting its implementation in particularly impoverished areas can be regarded as the first. Subsequently, following this meeting, it was explicitly stipulated that household responsibility could be autonomously chosen by peasants and was no longer restricted to specific impoverished regions. This can be considered the second breakthrough (Zhao, 2021b).

By the end of 1981, there were 1.61 million Household Responsibility System production teams nationwide, accounting for 32 per cent of all production teams. Guizhou had the highest proportion at 80 per cent, followed by Gansu at 66 per cent, Anhui at 55 per cent, Henan at 53 per cent, and Inner Mongolia at 50 per cent (Wu, 2016, 86). According to *Jingjixue Zhoubao*, the figure may have been even higher: 45.1 per cent of production teams in China had already adopted this system (see Lin, 1987, 410).

Document No. 1 in 1982

From 1982 to 1986, five successive No. 1 Documents issued by the central government focused on rural reform. Hu Yaobang, then General Secretary of the CCP, stated that it would be ideal if each year's No. 1 Document were approved by members of the Secretariat, and that rural work conferences should be held at the end of every year.

At the Rural Work Conference held in Beijing during the winter of 1981, consensus was reached through discussions based on various reports: the HRS needed to be granted a proper socialist 'permanent resident registered card', that is, it needed to be legitimised and institutionalised backed up by the state power (Wu, 2016, 87). The minutes of the meeting were subsequently issued as 'Document No. 1' in 1982. This document declared that the various forms of responsibility systems implemented thus far were all production responsibility systems operating within the framework of the socialist collective economy. These included contracts for seasonal work with quota-based remuneration, specialised task contracting, the production-related labourer contract system, the household responsibility system, individual household contracts, and group-based contracts (ibid).

1982 marked the full-scale advancement of all forms of responsibility systems. Following the issuance of 'Document No. 1', household-based work contracts, along with the comprehensive responsibility system, received central government approval and rapidly expanded from impoverished areas to other regions. In Jiangsu Province, significant progress was made: 80% of production teams had adopted the responsibility contract system, the fastest growth seen in contracts to labourers and households (Wu, 2016: 87). In Guangdong Province, the household responsibility contract system expanded rapidly, increasing from 70% in 1982 to 95% by early 1983 (ibid, 89). Even relatively prosperous regions such as Foshan Prefecture in Guangdong began adopting the HRS in 1982. Total agricultural output there grew by 16.75% compared to the previous year, and per capita income for all commune members increased. By the end of 1983, 80% of production teams in Foshan had adopted the HRS (ibid, 90). Nationally, by 1983, more than 95% of production teams had adopted the HRS following the Xiaogang model (Wu, 2016, 90–91). Wu Xiang noted that '1982 was the year when the responsibility contract system spread across the nation. In June, the HRS covered 67% of rural areas, and by the end of the year, it had grown to 95%' (ibid, 91).

Document No. 1 in 1983

One of the most important statements in Document No. 1 of 1983 was the formal recognition of the Household Responsibility System (HRS) as part of the socialist collective economy. The document affirmed that 'the current responsibility systems in rural areas, including contracting work for a fixed rate salary, professional co-production contract payment, the co-production policy based on working hours, allocation of production responsibility on the basis of family, group, and so on, are all production responsibility systems under the socialist collective economy' (quoted in Wu, 2016, 106).

No arguments or debates arose during the finalisation of the draft of the second No. 1 Document at the Central Rural Policy Research Office. The HRS received the highest praise: it 'is the great creation of Chinese farmers under the leadership of the Party, and it is the newest development in our country's practice of Marx's theory of cooperatives' (quoted in Wu, 2016, 108).

During the Party Central Committee's approval process of the second No. 1 Document, 'the atmosphere of the meeting was relaxed and lively' (Wu, 2016, 108–109). Bo Yibo, member of the Politburo and vice premier, stated: '[Now] I believe that "the two-tier scheme that combines centralised management and decentralised management on the basis of the HRS is not only the great invention of farmers' practices in our country but is also the new development of Marx's theory of cooperatives"' (quoted in Wu, 2016, 109). By the end of 1983, 94.2% of households in rural China had adopted the system (Editorial Board of China Agriculture Yearbook, 1984,69).

Document No. 1 in 1984

In the early stages of contracting production to individual households, different localities adopted varying policies: some set contract terms of three years, others four. However, many farmers were concerned about potential policy reversals and hoped for longer contract durations. As one popular saying put it: 'The kindness of the Communist Party is like the sun, shining brightly wherever it goes; the policy of the Communist Party is like the moon, different on the first of the month than on the fifth.' (quoted in Wu, 2026, 113-14). To alleviate farmers' anxieties, and more importantly, because central leaders had growing confidence in the new system, the third No. 1 Document in 1984 formally announced: 'Extend the period of contracted land, encourage farmers to increase investment, cultivate soil fertility, and implement intensive farming. The land contract period shall be 15 years and above.' (Wu, 2026, 114; see also *Beijing Review*, 2007). In 1993, the No. 1 Document stipulated that the land contracting period should be extended for thirty years upon the expiry of the first round of contracts. In the Report of the 19th CPC National Congress, it was confirmed that the term would be extended for a further thirty years upon the conclusion of the second round. The extension of the contract period serves to enhance farmers' confidence and sense of stability (cf, Chen, 2019, 465). In subsequent years, the HRS was incorporated into several legislative instruments, including the 1993 amendment to China's Constitution, the Rural Land Contract Law (2003), and the Property Law (2007).

However, it is also necessary to continuously consider how to improve the efficiency of farmland use, particularly in relation to the increasing number of idle plots resulting from rural to urban migration. This brings into focus the concept of land circulation, which was first introduced in the CCCPC's No. 1 Document of 1984. The policy encouraged the transfer of farmland to more capable operators upon the expiry of land contracts, a process referred to as land circulation or transfer. In addition to the extension of land contract terms and the promotion of land transfer, the 1984 No. 1 Document also proposed that farmers be permitted to settle in rural market towns for work or business, with their household registration recorded

as ‘self-sufficient in grain rations’, distinct from both agricultural and non-agricultural households. This marked an early step towards urbanisation. Considering the extension of land contracts, the circulation of land and rural settlement reform, the 1984 No. 1 Document holds great historical and institutional significance.

Macro perspective analysis of change of the HRS in the national level

Now it is necessary to apply Dopfer *et al*.’s conception of the macro level to examine national-level change in the development of the HRS. As Dopfer *et al*. (2004, 267) state: ‘In the macro domain we abstract from such detail in order to focus upon the aggregate consequences – this is a quasi-statistical exercise that is not connected to the micro domain in an analytical sense even though it is possible to, for example, sum micro value added to obtain macro value added in an ex post statistical sense.’ What we observe is a steady increase in the number of production teams adopting household-based production over time. Indeed, Dopfer *et al*. (2004, 267) acknowledge that ‘we can have micro-macro arithmetic.’ However, they argue that ‘the behaviour of the economic system is best understood in terms of micro–meso–macro.’

We agree with the view that macro-level change is not merely quantitative but also qualitative. Crucially, it involves a transformation in the attitudes and behaviours of policymakers operating within the meso domain. As Dopfer *et al*. (2004, 267) note, ‘we tend to view the macro through statistical aggregates, but these are simply measures of output flow or asset value aggregations that arise from the existence of interacting populations of meso rules.’ Their key insight is that ‘macro is not a behavioural aggregation of micro, but, rather, it offers a systems perspective on meso viewed as a whole’.

According to Dopfer *et al*. (2004, 267), ‘macro involves a change in the coordination structure amongst meso units.’ This is evident in the case of the HRS, where provincial leaders had to decide whether to support its spread within their jurisdictions. From 14 to 22 September 1979, under Hu Yaobang’s leadership, a meeting of provincial Party First Secretaries was held in Beijing. Chaired by Hu, it became a forum for intense debate over rural reform, most notably the HRS. The now-famous dispute between the ‘broad road’ and the ‘single-plank bridge’ symbolised the divide between supporters and opponents of the policy. Despite efforts by Hu and Wan Li to build consensus, most provincial leaders remained opposed. Notable supporters included Chi Biqing (*Guizhou*), Zhou Hui (*Inner Mongolia*), and Ren Zhongyi (*Liaoning*), while key opponents included Yang Yichen (*Heilongjiang*), and the Party Secretaries of *Jiangsu* and *Fujian*. The now-famous dispute between the ‘broad road’ and the ‘single-plank bridge’ symbolised the divide between supporters and opponents of the policy. Despite efforts by Hu and Wan Li to build consensus, most provincial leaders remained opposed (Wu, 1980; Yang, 1996, 315).

Likewise, they argue that ‘micro is not the reduced essence of an economic system; it is a bottom-up systems perspective on meso when viewed in terms of its component parts’ Dopfer *et al*., 2004, 267). This micro–meso–macro analytical framework offers a valuable lens through

which to understand institutional change. In the Chinese context, it enhances the focus, clarity, and explanatory power of evolutionary economic theory when analysing the development of the Household Responsibility System.

The institutional change from the CS to the HRS being both incremental and path dependent

The institutional change from the CS to the HRS was both incremental and path dependent. This confirms North's observation that successful institutional change is 'typically incremental and [...] path dependent' (North, 2005, 62). North explains: 'It is incremental because large-scale change will create too many opponents among existing organisations that will be harmed and therefore oppose such change. Path dependence will occur because the direction of incremental institutional change will be broadly consistent with the existing institutional matrix and will be governed by the kinds of knowledge and skills that entrepreneurs and members of organisations have invested in' (North, 2005, 62). The Chinese economy, like any other, cannot alter its course overnight. As North aptly observes: 'It is simply a fact that the overwhelming majority of change is incremental, gradual, and constrained by the historical past' (North, 2005, 64). In this respect, China's experience is no exception.

Rural reform began with the 11th Third Plenary Session of the Central Committee of the Chinese Communist Party and was formally consolidated by 1983. The policy process evolved through various stages—from the 'two no's', to 'do not', 'might be', and eventually to 'the great creation of peasants under the CCP's leadership'. This marked a progression from prohibition to concession, then to endorsement, and finally to full promotion. The reform process was gradual and path dependent. It was also underpinned by a transformation in belief systems, particularly the realisation that the HRS was not 'capitalist', as it had initially been labelled, but could enhance agricultural productivity within the framework of collective ownership.

The institutional change from the CS and the HRS and reduction of transaction costs

The efficiency gains from the institutional shift from the collective system (CS) to the household responsibility system (HRS) can be understood through the lens of transaction cost theory. Admittedly, the very concept of transaction costs has long been contested (Hodgson, 2025). Stanley Fischer (1977, 322) famously observed: 'Transaction costs have a well-deserved bad name as a theoretical device, because solutions to problems involving transaction costs are often sensitive to the assumed form of the costs, and because there is a suspicion that almost anything can be rationalised by invoking suitably specified transaction costs.' Likewise, efforts to define and measure transaction costs have persisted without consensus (Wallis and North, 1986, 96; Allen, 1991, 2; Sykuta, 2010, 157). Nevertheless, the concept remains useful for analysing incentive and monitoring problems under the CS.

Transaction cost analysis can also be conducted at the macro level. Kenneth Arrow (1970, 48) famously described transaction costs as the 'costs of running the economic system', a view later endorsed by Oliver E. Williamson (1979, 233). Similarly, North and Robert P. Thomas

(1970, 5) defined transaction costs as the 'costs of operating an economic system'. Steven N. S. Cheung (1998, 515) offered an even broader formulation, describing transaction costs as 'just about all the conceivable costs in a society except those associated with the physical processes of production and transportation'. Cheung preferred the broader term 'institution cost' to capture these pervasive costs. These are system-wide definitions. Of course, there is no reason why transaction costs cannot also be analysed at the micro level (Demsetz, 1968: 35). However, this paper does not adopt Demsetz's narrower interpretation. There is little justification for rejecting broader formulations that include, for instance, 'the costs of information and of cooperation between parties whether these costs are incurred in exchange across markets or in any other setting' (Demsetz, 2008, 107).

There were significant changes in transaction costs associated with the shift from the collective system (CS) to the household responsibility system (HRS). Under the CS, which was based on team-based production and distribution, monitoring individual effort posed a major challenge. As in private economies, the incentive to work in a team is diminished when individual effort cannot be accurately metered (Alchian & Demsetz, 1972). As Lin (1988, S199) rightly noted, 'monitoring labour effort in agricultural production is extremely difficult and very costly' due to agriculture's sequential nature and spatial scale. The cost of labour supervision under the CS has been estimated to absorb about 10–20 per cent of total labour time for agricultural teams in the 1970s, a loss widely interpreted as a transaction or agency cost (Dong & Dow, 1993, 539-553). By contrast, under the HRS, production and distribution were organised at the household level, eliminating much of the need for complex labour measurement and supervision. When households assumed responsibility for their own profits and losses and managed both production and working hours, family members could allocate labour flexibly by age, gender, and ability. As a result, peasants gained greater autonomy, and the costs of supervision fell sharply, contributing significantly to improved agricultural output.

Although Coase's (1937, 1960) concept of transaction costs was originally developed in the context of a market economy, it can also provide valuable insights into institutional arrangements in non-market settings. Coase highlights the importance of understanding the costs associated with different institutional structures, such as markets and firms. For example, he discusses how both markets and firms can be used to address externality problems resulting from neighbouring effects but notes: '... the firm is not the only possible answer to this problem. The administrative cost of organising transactions within the firm may also be high, particularly when diverse activities are brought under the control of a single organisation' (Coase, 1960, 17). In this context, it is reasonable to observe a notable difference in the costs associated with the CS and the HRS in addressing externalities like the monitoring and measurement of labour. Specifically, the transition from the CS to the HRS in China's rural reform significantly reduced supervision costs, highlighting the institutional efficiency of the latter system.

At the end of his article, Coase (1996, 44) concludes:

> It would clearly be desirable if the only actions performed were those in which what was gained was worth more than what was lost. But in choosing between social arrangements within the context of which individual decisions are made, we have to bear in mind that a change in the existing system which will lead to an improvement in some decisions may well lead to a

> worsening of others. Furthermore we have to take into account the costs involved in operating the various social arrangements (whether it be the working of a market or of a government department), as well as the costs involved in moving to a new system. In devising and choosing between social arrangements we should have regard for the total effect. This, above all, is the change in approach which I am advocating.

This framework can be applied to analyse the institutional change from the collectivised system (CS) to the Household Responsibility System (HRS). The HRS improved labour productivity through its incentive structure and, as a result, generated higher output. However, institutional change inevitably creates both 'winners' and 'losers'. Reformers such as Wan Li and his allies in Anhui were consciously aware of these distributional consequences. For example, although Wan Li supported reforms in Shan'nan, he was also concerned about their potential effects. Accordingly, he conducted two on-site investigations in Shan'an, on 21 May and 13 December 1978. The first visit was intended to encourage Party Secretary Tang Maolin in the Shan'nan district to pursue bold reforms and not to fear experimentation. The second one was to consider the possible losers' compensation issue. The first question is concerning the relatives of soldiers for their alleged of labour shortage.

> Wan: 'I have come here to ask you a few question, so please answer'.
>
> Tang: 'Secretary Wang, I will tell you as much as I know'.
>
> Wang: 'Some comrades reflected that contracting production to household in the Shan'an District is 'undermining morale', 'destroying the Great Wall'. How do you respond to this?'
>
> Tang: 'This concern is unnecessary! There are 14 servicemen in the Shan'nan District and the District Party Committee sent a letter to every one of them describing the major harvest that occurred after using the contracted production to household system in their villagers. At the same time, we told them, "the responsibility fields" at home were very well looked after, rewards were in surplus and losses were diminished. Work points were given with careful consideration and distribution was in cash. Households in general difficulty were given one thousand work points, and military households were given an extra one hundred fifty to two hundred yuan in case each year'.
>
> Wan: 'So you are not 'undermining morale' and 'destroying the Great Wall', but rather consolidating national defence then!' Tang: 'Yes' (quoted in Wu, 2016, 49).

Wan Li also ask a third question which is also involved the issue of 'loser's.

> Wan: 'Let me ask you a third question: Families of martyred solders, military families, five guarantees families[9] and other households in difficulty are not being cared for. How do you think this should be solved?'
>
> Tang: 'We are taking care of them, even better than before! We set up a pilot at *Jin'niu* Commune and gave five guarantees families seven hundred *jin* of straw, and five *jin* of cooking oil. Life expenses are all inclusive, including fifty yuan to pocket at extra cash. This have been

[9] The aged, the infirm, old widows, and orphans were take care of by the people's commune in three way—food, clothing, medical care, housing, and burial expense. (see, Wu, 2016, 44 note 14).

> promoted throughout the whole district. As for the families of martyred solders and military families, they are now much better off than the period of 'big talk but no action'. At that time, the value of work points was very low, now surpassing twenty-five yuan every year, but now, it is worth over four to five times as much' (quoted in Wu, 2016, 50).

From their dialogue, it is clear that the losers were compensated or made better off through increased wealth and consciously fair distribution. Under the HRS, greater labour input brought greater advantage; however, those short of labour were to be well looked after under the new system. It was because of such measures adopted by the reformers that resistance to the new system was reduced. North (2005, 156), in Comments on How to Improve Economic Performance, writes: 'In a Coasian world the players would always choose that policy that maximized aggregate well-being with compensation for any losers'. Shan'nan experiment can be count one in world that Coase advocates. North (2005, 165) also comments: 'Alteration of the economic rules entails winners and losers and it is essential to be aware of them, of their access to the political process and therefore of the ability of losers to negate the proposed alternatives. While "Coasian" solutions are not always possible, awareness of the costs and benefits can result in institutional alterations that can mitigate opposition'. Both Coase and North realised the issue of 'winers' and 'losers' in their theories. Both Wan Li and Tang Maolin consciously pursued this approach to ensure the success of the reform—to replace the old CS, which had distinctive structural problems due to extreme egalitarian distribution of outputs and a lack of incentives for people to work hard. By institutionalising the HRS, they addressed the issue of creating more wealth by encouraging people to work harder to earn more. At the same time, they also considered the issue of losers, implementing relatively fair redistribution and thereby reducing resistance to the reform. Their practice demonstrates the possibility of simultaneously creating wealth and recognising the importance of equitable distribution.

7 **The Significance and Long-term Impact of Institutional Change from the CS to the HRS**

7.1 *The HRS promoted economic growth and large-scale poverty reduction*

The shift from the CS to the HRS represents a successful, transformative, and innovative example of institutional change in modern China. Hu Yaobang rightly assessed its historical significance. As he observed:

> In setting things to rights in the agricultural system, we have resolutely corrected certain grave and prolonged misunderstandings regarding such questions as the socialist *public economy and mass production*, overcome the serious *egalitarian error of "everyone eating from the same big pot"* and created the system of responsibility for agricultural production characterized by *contracting for specialized work and by payment being linked to output*. In such ways the Marxist principle of "to each according to his work" and the principle of integrating *the interests of the state, the collective and the individual are being genuinely implemented* in the vast rural areas in the light of China's concrete conditions (1983,11; emphasis added).

He concluded: ‘we have given up *old* forms that were divorced from realities — forms that were either uncritically copied from other countries or arbitrarily devised by ourselves — and have found *new* forms that are truly Chinese and suited to China’s current rural conditions’ (Hu, 1983, 12; emphasis added). The reason why ‘the principle of integrating the interests of the state, the collective and the individual are being genuinely implemented’ is that the HRS originated from peasant innovation, specifically the secret agreement reached by villagers in Xiaogang, Fengyang County, Anhui Province, in late December 1978. As previously noted, this agreement followed the principle: ‘give enough to the country, keep enough for the group, and the rest is for ourselves’ (quoted in Wu, 2016, 76). This approach, though procedurally simple, was the most direct in delivering tangible benefits to peasant households. It mobilised peasants to work harder, produce more, and earn more, as the shares allocated to the state and the collective were fixed. This constituted the core incentive structure of the HRS. Since the state and collective incomes were relatively stable, any additional agricultural output directly benefited the farmers. This form of residual control over the fruits of their labour was the strongest incentive embedded in the HRS.

New Institutional Economics places a central emphasis on incentives in shaping economic performance. As North notes: ‘Incentives are the underlying determinants of economic performance’ (North, 1990, 135). This insight is directly applicable to the HRS: under the system, peasants produced more and retained more. The right to residual income from the land thus became a fundamental driver of economic growth in rural China.

This has been observed by many Western scholars. For example, as Oi notes: ‘Beginning in the late 1970s and culminating in the early 1980s, the initial phase of rural reforms worked remarkably well to solve the incentive problems that had plagued Maoist agriculture’ (Oi, 1999b, 617–618, italics added). As North observes: ‘Starting with the household responsibility system, the Chinese developed an incentive structure which managed to produce rapid economic development without any of the standard recipes of the West’ (North, 2005, 159, italics added). This has important implications for developing countries seeking to learn from the experiences of the developed world. As North further explains: ‘It should be emphasised that the institutions that have emerged in the Western world, such as property rights and judicial systems, do not have to be faithfully copied in developing countries. The key is the incentive structure that is created, not the slavish imitation of Western institutions’ (North, 2005: 159, italics added). This is a valid insight. People in developing countries should have the courage and confidence to explore paths that are suitable for their unique political, economic, legal, cultural, and social conditions.

According to the State Statistical Bureau (1989), the gross value of agricultural output increased in real terms at an annual rate of 7.6%, while grain production rose by 4.9% (quoted in Kung and Cai, 2000, 304, fn1). However, Carl Riskin highlighted the unreliability of Chinese statistics regarding economic growth (Riskin, 1987). Despite this, Chinese statistics are generally regarded as reliable and useful for drawing conclusions about the economy (Chow, 2006). Numerous empirical studies by leading agricultural economists demonstrate that total agricultural production grew rapidly, particularly in the early years of the HRS reform (Mead,

2003; Yao, 1999). But what role did the HRS play in this growth? Carolus (1992) argued that no more than 20% of the increase in total crop value could be attributed to the HRS, based on the most plausible data. Using national aggregated time-series data for the 1952–1989 period, both Wen (1993) and Fan and Zhang (2002) found that the HRS contributed to economic growth. Fan (1991) estimated that 26.6% of production growth was attributable to institutional change, with 15.7% due to technological change. Huang and Rozelle (1996) attributed 30% of growth to the HRS. Zhang and Carter (1997), using county-level data, found that approximately 35% of grain output growth during 1980–1985 was due to the HRS. Lin (1987) attributed 60% of the increase in agricultural production to institutional change, while McMillan, Whalley, and Zhu (1989) suggested a figure of 78%. Lin (1992) presented perhaps the most convincing approach, employing regression analysis that exploited substantial cross-provincial variation in HRS adoption. He calculated that China's agricultural sector grew at an annual rate of 7.7% between 1978 and 1984, significantly higher than the 2.9% annual growth rate from 1952 to 1978. Lin found that the institutional change from the Commune System to the HRS improved total factor productivity, with the HRS accounting for about half of the output growth during 1978–1984 (Lin, 1992). Using a different methodology, Kalirajan et al. (1996) showed that replacing the collective farming system with a household-based contract system substantially improved the efficiency of Chinese farming. More recently, Sun and Chen (2020) confirmed Lin's findings.

With the increase in agricultural growth, peasants' incomes improved significantly between 1979 and 1984. According to Kung (2002c, 66, fn 1), crop output grew at an annual rate of 5.9%, compared with 2.5% per annum between 1954 and 1978; peasants' incomes rose by 6.3% per annum, in contrast to 2% previously. By 2022, the number of people in China living on less than $US 1.90 per day—the World Bank's absolute poverty line—had fallen by 800 million. China has accounted for more than 70% of the global reduction in the number of people living in extreme poverty (Wang and Zeng, 2018; World Bank and the Development Research Centre of the State Council, People's Republic of China, 2022).

China's poverty reduction is historically unprecedented in both speed and scale. The starting point of this change was the HRS, which enabled equitable distribution of land to ensure equal opportunities for all (Zhu and Chen, 2016; Li and Wei, 2016). In the 1980s and 1990s, agriculture was 'the real driving force in China's remarkable success against absolute poverty, rather than the secondary (manufacturing) or tertiary (services) sectors' (Montalvo and Ravallion, 2010, 13). Net income rose from less than 150 yuan in 1978 to nearly 400 yuan in 1985 (China Statistical Yearbook, 1998: 345). The number of poor people in rural China decreased from 250 million in 1978 to 125 million in 1985, with an annual decrease rate of 9 per cent (Liu *et al*., 2020). This period coincided with the establishment of the HRS between 1979 and 1984. This is not surprising, as 80% of the population lived in the countryside at that time. Many developing countries face a similar situation due to their overwhelming rural populations. Focusing on the countryside can quickly lift more people out of poverty. Deng Xiaoping's reform starting from the countryside was far-sighted. As Deng himself explains, he began reform in the countryside precisely because of the large rural population and the need to improve living standards there:

> We began our reform in the countryside. The main purpose of the rural reform has been to bring the peasants' initiative into full play by introducing the responsibility system and discarding the system whereby "everybody eats from the same big pot". Why did we start there? Because that is where 80 per cent of China's population lives. An unstable situation in the countryside would lead to an unstable political situation throughout the country. If we didn't raise living standards in the countryside, society would be unstable (Deng, 1985).

With the rapid growth of township enterprises in rural areas during the 1990s, a large proportion of the rural labour force was drawn into non-agricultural sectors and other diversified sources of farm income, which became a new driving force in poverty reduction.

In contrast, the egalitarian distribution under the CS stifled peasants' initiative, harmed their interests, and was not conducive to the development of agricultural production. Under the commune system in agriculture, in place since 1953, land that had previously been equitably distributed among farming households was transferred to the collective. All inputs were provided by, and all outputs were handed over to, the collective. Agricultural workers were equally remunerated regardless of their actual contributions, due to monitoring difficulties (Lin, 1987, 1988, 1992) and discipline problems (Dong and Dow, 1993; Putterman, 1987, 1988a, 1988b, 1989, 1991, 1993). Consequently, production incentives were significantly weakened, resulting in long-term stagnation in agricultural productivity and widespread food shortages. More than half of the population lived below the poverty line prior to Deng Xiaoping's initiation of reforms in 1978 (Ravallion and Chen, 2007). In summary, the HRS, with its incentive structure, has contributed to four decades of agricultural and economic growth, whereas the CS, characterised by disincentives, led to a quarter-century of economic stagnation and decline (Meng, 2018: Ch. 2 and 3).

7.2 *Promoting Rural Industrialization and Urbanization*

Under the commune system from 1953 to 1978, peasants leaving the countryside to pursue non-farm work were discouraged or prohibited under the hukou system. As Zhu observed: 'The hukou or household registration system was implemented to keep heavily taxed farmers from leaving rural areas. Furthermore, farmers were prohibited from engaging in any non-farm activity' (Zhu, 2012, 109). The establishment of the household responsibility system (HRS) changed this situation. It led to huge efficiency gains in agriculture, which in turn enabled the reallocation of labour from agriculture to more productive industrial and service jobs, driving further productivity gains (Zhu, 2012). It was the driver of economic growth as the economy shifted from agriculture to industry and services.

Because of the autonomy and incentives inherent in the HRS and the corresponding increase in agricultural productivity, some peasants were able to leave farming and find work in low-skilled, labour-intensive industries such as township and village enterprises (TVEs). Between 1978 and the mid-1990s, TVEs absorbed many rural workers no longer required on farms. The number of TVEs increased from 1,520,000 in 1978 to 18,880,000 in 1988, and then to 23 million in 1996, most engaged in light industry (National Bureau of Statistics of China, 1999).

During this period, TVEs generated over 130 million jobs, and their contribution to rural employment rose from 9.2 per cent to 27.6 per cent (Gan, 2003).

For poor agricultural workers, TVE jobs were attractive because they did not require leaving their villages or household plots. This allowed risk-averse farmers to supplement farm incomes with wages from off-farm employment when their labour was not needed on the farm (Huang, 1985). By 1978, 81 per cent of the population lived in rural areas. The agricultural sector contributed less than 30 per cent of GDP but employed almost 70 per cent of the labour force (National Bureau of Statistics of China, 1999). While total employment increased from 402 million in 1978 to 775 million in 2015, the share of agricultural labour dropped from 69.6 per cent to 18.3 per cent (Cai, 2017). In 2017, the number of permanent urban residents exceeded 800 million for the first time, while agriculture's contribution to China's GDP fell below 8 per cent, also for the first time (Chen, 2019).

Because of the HRS, migrant workers could return to the countryside if they were unable to find work in the cities. 'Chinese farmers are fortunate that they, on the whole, have land to which to return—many of their counterparts in other similar nations do not' (Zhang and Donaldson, 2013, 270). The continuing communal ownership of land 'offers a social safety net for those migrant workers losing jobs in the coastal export zones' (Wen, 2008, 96). For example, during the 2008 global financial crisis, 20 million peasant-turned-workers lost their jobs due to the crisis and had to return to their villages; by 2009, many gradually returned to cities to find work (Chen, 2010, 237). Indeed, 'land as a form of social safety net undoubtedly reduces already tenuous social rifts' (Zhang and Donaldson, 2013, 270).

7.3 Promoting the development of free market and private property

Furthermore, under the HRS whereby collectives would contract farm households to deliver a certain production quota from their allocated land, with the remaining output left for peasant households for their own consumption. With the improvement of productivity, they produced more but they could not consume all the grains, so they had the right to sell freely on the market, increasing their income. This promoted the introduction of market mechanisms; thus peasants were the real creators of market economy in China in 1980s (Chen, 2019; Wu, 2016).

7.4 Providing Economic Foundation of Democratization at the Village Level

The establishment of the HRS enabled villagers to participate in both social and political forms of democracy. They could challenge and confront local leaders when grievances arose, using official policies and state-endorsed values as justification. As one peasant asked his cadres: 'Central policy says that after farmers fulfil their contractual obligations, we can sell our grain freely on the market; why don't you obey?' (Tang and Wang, 1989, 4). As O'Brien observed: 'Decollectivisation has freed him' (O'Brien, 2001, 408).

Peasants knew one another and were familiar with the reputations of candidates in administrative villages. Manion notes: 'The familiarity in a small community provides a basis

for choosing village leaders with congruent views and also creates incentives for their responsiveness to villagers' (Manion, 1996, 738). As a result, both individual and collective interests were more effectively respected. Village elections gradually evolved into a formal policy of rural self-government (Wang, 1998). To the extent that democratisation is occurring in China, the signs are most evident at the local level. Jennings writes: 'Thus, the patterns of participation observed there may be a harbinger for eventual changes at higher levels as well as a foreshadowing of further changes at the local level' (Jennings, 1997,370; see also Choate, 1997; O'Brien, 1994, 2001; O'Brien and Li, 2000; Manion, 2000; Shi, 1997, 1999a, 1999b, 2000).

As early as January 1980, Wan Li argued: 'Let the folks elect and team and brigade leaders by themselves' (Wan, 1996, 88). He believed that 'Our work will be easier when democratic management and democratic selection of cadres can truly be implemented' (Wan, 1995, 202; quoted in Zhao, 2017, 64). The 1982 Constitution introduced 'autonomous village committees' to manage villages as decollectivisation progressed. The concept also appeared in a 1983 Central Committee circular that called for the separation of government administration from economic management (Party Central Committee and State Council, 1986–1987). Peng Zhen, then Chairman of the National People's Congress (NPC), supported the introduction of direct elections in rural areas (Li and O'Brien, 1996, 1999).

In November 1987, a draft law establishing elected village committees as autonomous organisations of authority in the countryside was passed by the NPC and came into effect in June 1988. The guiding principle was that villagers would be more responsive to leaders chosen from below than to those imposed from above. The law defined village committees as mass organisations of grassroots self-government, popularly elected and accountable to a village council composed of all adult villagers. These committees, usually comprising three to seven members, were elected for three-year terms. Significantly, the law did not place the committees under the authority of township governments or local party organisations (National People's Congress, 1987). Village committees were not part of the formal state apparatus; rather, they were 'autonomous mass organisations' through which villagers managed their own affairs, met their own needs (art. 2), and exercised control over land and other resources.

They typically possessed 'veto power to decide the general use of village resources, what might be called macroeconomic control' (Oi, 1996, 137). As O'Brien observes: 'As a breeding ground for citizenship rights, VCs have two decisive advantages over people's congresses: they are more autonomous, and they control things people care about' (O'Brien, 2001, 416).

In studying village elections, Manion concludes:

> The demand for rural grassroots democratisation came in the late 1980s from the top, not the bottom, of the communist system. Chinese leaders hoped that popularly elected village committees would fill a vacuum in leadership created by agricultural decollectivisation and restore stability and enhance compliance in rural areas. Officially, the village committees were an experiment (Manion, 1996, 745).

However, this is only partially true. Peasants had already begun demanding the right to elect their leaders during the 1980s. As with the HRS, village elections emerged organically from a society increasingly discontented with the rapacity of local cadres. The first direct elections for villagers' committees were initiated in Guangxi Province. Inspired by this grassroots experiment, Peng Zhen, then Vice Chairman of the NPC, began to promote village elections nationwide (O'Brien and Li, 2000). The quality of village elections improved from the early 1990s, and voter engagement steadily increased. As Wang (1997, 1437) notes, 'peasants have shown great enthusiasm for this grassroots political reform'. Jennings (1997, 366) similarly observes that 'local elections appear to be acquiring high salience in the political life of the countryside'. According to an official from the Ministry of Civil Affairs, 'most villagers did not pay attention to the first round of elections, but some became interested the second time, and by the third time many actively participated' (quoted in Shi, 1999a, 402).

The HRS returned use, management, and income rights to peasant households, empowering them politically through economic independence. Only when peasants are able to make key economic decisions about land can they also participate meaningfully in decisions concerning broader social affairs that affect their rights and interests. The HRS demonstrates that economic democracy can drive economic development, and that economic development, in turn, can foster political democracy at the village level. Numerous quantitative studies confirm that higher levels of development are associated with a greater likelihood of stable democracy (Acemoglu et al., 2019; Boix, 2011; Boix and Stokes, 2003; Mohammadi et al., 2023). China is no exception. However, as Shi (1999, 387) observes, 'existing democratisation theory can scarcely explain electoral reform in China'. Neither the empirical theories linking development to democracy (see, e.g. Arat, 1988; Inglehart and Welzel, 2009; Lipset, 1959; Burkhart and Lewis-Beck, 1994; Przeworski and Limongi, 1997), nor the transition theories from authoritarianism (see, e.g. O'Donnell et al., 1986; Huntington, 1991), account for the Chinese case. Barrington Moore (1966) famously argued that peasants are a major obstacle to democratisation. Yet, as Shi (1999, 387) notes, 'contrary to these claims, electoral reforms in China happened in rural areas among peasants'. A more robust theory of democracy and development grounded in the HRS is therefore needed.

7.5 Breaking through Ideological Cages

The HRS was a pivotal component of rural reform. When peasants began producing surpluses, they increasingly based production decisions on market dynamics rather than on state directives. This marked the effective introduction of market mechanisms into agriculture, as households allocated their limited contracted land in response to market demand. As a result, the HRS prompted a re-evaluation of the relationship between capitalism and the market, as well as between socialism and central planning. It became clear that both planning and the market are tools for developing productive forces, rather than ends in themselves. As Deng Xiaoping remarked during a 1987 meeting with senior members of the Central Committee of the Chinese Communist Party:

> Why do some people always insist that the market is capitalist and only planning is socialist? Actually, they are both means of developing productive forces. So long as they serve that purpose, we should make use of them. If they serve socialism, they are socialist; if they serve capitalism, they are capitalist. It is not correct to say that planning is only socialist, because there is a planning department in Japan and in the United States. At one time we copied the Soviet model of economic development and had a planned economy. Later we said that in a socialist economy planning was primary. We should not say that any longer (Deng, 1987)

From a theoretical perspective, this represented a significant ideological breakthrough. In Deng's view, planning and markets are often neither substitutes nor rivals but complement each other. The government recognised the imperative to minimise administrative intervention in agriculture and rural areas, allowing peasants to operate autonomously, that is, to allocate resources in accordance with market demands (Chen 2019, 464). When peasants sold surplus grain on the market in exchange for currency, they used the proceeds to purchase production materials such as tractors, machinery for small processing plants, and even sewing and hosiery machines (Chen 2019, 462). These production tools were privately owned, fundamentally altering people's perception of private property as a means of production. Although collective land ownership in rural areas remained unchanged, the rights to use, manage, and derive income from the land were returned to the peasants.

Since the 1950s, there has been a prevailing worldview of 'the dichotomy of the institutional world of private property exchanges in a market setting and government-owned property organised by a public hierarchy' (Ostrom 2010, 642; see also Ostrom and Hess 2007). The former has been equated with capitalism, and the latter with socialism. As Demsetz notes: 'For brevity's sake, call these alternatives private and collective ownership or, simply, capitalism and socialism' (Demsetz 2002, S658). In 1962, Mao asked: 'Do we want socialism or capitalism? Do we want collectivisation or decollectivisation?' (Pang and Jin 2003; quoted in Xu 2013). Even as late as 1980, public ownership was regarded as socialism, and household-based production was regarded as capitalism by the Chinese central government. This paper seeks to demonstrate that these are crude simplifications, and that the HRS has shown how socialism and the collective can be enhanced by individual property rights.

7.6 The nature of property rights in the institutional change from the CS to the HRS

The property rights structure of the HRS is not in direct opposition to collective ownership or the commune system but represents a dialectical 'negation of negation', a form of 'individual property' in Marx's terminology (Meng 2019). It does not involve a shift from full collective ownership to full individual private ownership, but rather a split ownership among three parties (Meng 2016). The collective retains the rights to reallocate land; peasant households hold the rights to use, manage, and derive income; and the state possesses the alienation rights. The HRS thus embodies the coexistence of individual rights within the framework of collective land ownership.

Coasian insights of bundle of rights

Over the last century, three general conceptions of property have competed for dominance: 'property as thing-ownership', 'property as a bundle of rights', and 'property as a social relation' (Ireland, 2024, 5). There are various interpretations of the bundle of rights approach. For example, Coase presupposed a particular picture of property as a bundle of rights (1959. 1960; 1988) and emphasised the importance of legal entitlements in shaping economic outcomes. However, his views were strongly criticised by neo-Blackstonians such as Henry Smith and Thomas Merrill (see, for example, Merrill and Smith, 2001; 2011).

For the purpose of this paper, Coase's key insight is that externalities can be internalised through the contractual exchange of property rights. In rural China under the CS, output allocation followed a work-points system, which created significant monitoring costs. Because individual rewards were disconnected from actual productivity, it was difficult to ensure that effort was exerted efficiently.

By contrast, under the HRS, peasants entered into contracts with the collective, receiving de facto use rights—often including management and income rights—over specific plots of land. This reform significantly reduced monitoring costs, as households now bore the risks and benefits of production and had greater autonomy. In Coasian terms, the HRS established new property rights where none had previously existed, thereby internalising the inefficiencies of the collective system.

Coase observed that contractual exchanges, whether accepted or rejected, compel actors to consider how their use of resources affects others. While his examples typically involved horizontal transactions between private parties—such as ranchers and farmers—there is no reason such exchanges cannot, in the Chinese context, occur between peasants and the collective or state. The logic still holds: over time, this process can lead to more socially valuable resource allocations.

Although the HRS did not involve full private ownership, it nonetheless enabled more efficient use of agricultural resources. The content of the property rights bundle was collectively determined—first by the Xiaogang villagers, and later by the state through policy and legislation. The redistribution of land was clearly a form of collective control, but within it, individuals were granted specific, circumscribed rights.

As Coase (1960, 44) notes: 'The rights of a landowner are not unlimited... What the landowner in fact possesses is the right to carry out a circumscribed list of actions.' This insight applies directly to the rights of Chinese peasants under the HRS. Similarly, in his discussion of spectrum allocation, Coase (1959, 33) clarified that what is being allocated is not ownership per se, but the right to use resources in specific ways. Ownership, therefore, is not absolute and need not involve a concentration of all rights in a single actor. In short, the institutional shift from the CS to the HRS can be seen as a Coasian process: through incremental contractual arrangements and institutional experimentation, new property rights emerged that increased productivity and enhanced social welfare.

In his argument for the contractual allocation of spectrum rights, Coase (1959, 33) observed that what is allocated is not ownership of frequencies or the ether, but the right to use equipment to transmit signals in a specific way. Ownership, in this view, is not absolute, nor must it reside in a single person. As Coase (1960, 44) similarly stated, the rights of a landowner are not unlimited; they consist of a defined set of actions. This conception applies directly to peasants' land rights under the HRS, which represents a bundle of use rights rather than full ownership in the Blackstonian sense.

From a Coasian perspective, externalities can be internalised through the contractual exchange of property rights. Under the CS in rural China, output was allocated based on a work-points system that imposed high monitoring costs. Because rewards were disconnected from actual productivity, it was difficult to ensure efficient individual effort. By contrast, the HRS enabled peasants to enter into contracts with the collective, granting them de facto use rights, often including management and income rights, over specific plots of land. This arrangement reduced monitoring costs and aligned effort with reward, as households bore both the risks and benefits of their labour.

In this sense, the HRS effectively created new property rights where none had previously existed, internalising the inefficiencies of the collective system. While Coase originally illustrated his theory using horizontal exchanges between private actors such as farmers and ranchers, his framework is equally applicable to contractual arrangements between individuals and collectives, or even the state. Coase did not confine his theory to individual transactions; he extended it to the economy as a whole, arguing that transaction costs influence not only size but also what goods and services are produced. As he put it, 'If the costs of making an exchange are greater than the gains which that exchange would bring, that exchange would not take place' (Coase, 1992, 716).

Although the HRS did not establish full private ownership, it did enable more efficient use of agricultural resources. The bundle of rights was collectively defined, initially by the Xiaogang villagers and later formalised through state policy and legislation. Land redistribution under the HRS remained a form of collective control, but it was implemented through contractual mechanisms that better aligned incentives. The institutional shift from the CS to the HRS can thus be seen as a Coasian process. Through incremental contracts and institutional experimentation, property rights evolved in ways that improved productivity and enhanced social welfare.

Honoré's concept of ownership

At the same time, Honoré (1961) systematically developed his influential concept of ownership. His approach has also been criticised by J. Penner, another neo-Blackstonian (see, for example, Penny, 1996,1997, 2005, 2011, 2020a, 2020b). In this paper, we deploy Honoré's framework to analyse the structure and functioning of property rights in the Chinese economy under both the CS and the HRS. The shift from the CS to the HRS in property rights can be conceived as

a transformation from a kind of 'full liberal ownership' into a kind of 'split ownership', in Honoré's terminology (1961).

Honoré claims that in 'mature legal systems' certain important legal incidents are found which are common to different systems (Honoré 1961, 109). He argues that these features are 'common' to systems of ownership across legal and historical contexts (Honoré 1961, 110). As he notes, 'the standard incidents of ownership do not vary from system to system in the erratic, unpredictable way implied by some writers but, on the contrary, have a tendency to remain constant from place to place and age to age' (Honoré 1961, 110). When these eleven standard incidents are 'united in a single person', they constitute what he terms the 'liberal' notion of 'full' ownership (Honoré 1961, 111, 113). This classical view can be traced back to Blackstone, who famously described 'the right of property' as 'sole and despotic dominion which one man claims and exercises over the external things of the world, in total exclusion of the right of any other individual in the universe' (Blackstone 2016 [1766]). 'Blackstone's paean to private property compares with the mainstream Anglo-American exaltation of decentralized ownership of land' (Ellickson 1993, 1317).

The concept of 'full liberal ownership' is described by Honoré as 'the basic model, a single human being owning, in the full liberal sense, a single material thing' (Honoré 1961, 147, italics added). The 'owner' in this model may be a single individual, a collective, or even the state. As Honoré explains, 'In the Soviet Union, for instance, important assets such as land, businesses, and collective farms are in general withdrawn from "personal ownership" (viz. the liberal type of ownership) and subjected to "government" or "collective" ownership' (Honoré 1961, 147, italics added). He argues that this model is not the only legally or socially significant way to organize ownership and that there exists 'a set of related institutions of great complexity' (Honoré 1961, 113, 147). Under the CS, all land-related property rights except the right to alienate (buy or sell) were concentrated in the collective. This effectively created a form of collective full ownership.[10]

When the standard incidents of ownership are distributed among two or more parties, this gives rise to what Honoré terms 'split ownership'. He defines these as cases 'in which the standard incidents are divided between two or more persons' (Honoré, 1961, 108). The parties in such cases may be either natural persons or juristic persons. Examples involving natural persons include 'concurrent interests in property (joint tenancy, tenancy in common, co-ownership, the interest of spouses in a community estate, the interest of members of an unincorporated association in the property of the association)'. Juristic persons, on the other hand, may include 'corporations sole, *Stiftungen*, the state, joint stock companies' (Honoré, 1961, 143). Compared to the standard case of 'full' ownership, these arrangements are considerably more complex. They include 'cases where the standard incidents are so divided as to raise a doubt which of two or more persons interested should be called owner' (Honoré,

[10] For analysis of similar forms of collective ownership using the bundle of rights framework, see, for example, Konia, 1992; Rosser and Rosser, 2003.

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1961, 124). Honoré warns that such cases of split ownership are 'the troubled waters' or 'the puzzles' (Honoré, 1961,129). As he explains, 'there are such cases of split ownership and that they present baffling problems to one who is compelled to fix on one interested person as the owner of the thing' (Honoré, 1961, 112). He emphasises that some of these cases pose particular difficulties for lawyers who must apply rules assuming that everything has them, and only one, independent 'owner' (Honoré, 1961, 143). Such configurations may suggest that either everyone or no one is the owner.

Honoré identifies two opposing historical movements between full ownership and split ownership: one involves separating the standard incidents into two or more parcels, while the other involves assembling them into a unified form. As he puts it, 'historically speaking, full ownership has been built up from the fragments' (Honoré, 1961, 143). He notes that 'the alienable, heritable, and indefeasible fee simple evolved from the inalienable and intransmissible tenancy in fee, subject to onerous incidents of tenure'. Thus, full ownership is not a natural or original form, but often a product of legal and institutional consolidation over time.

The change in arable land ownership from the CS to the HRS in modern China has been observed by Hodgson. He notes that 'since the early 1980s there has been a major distribution of *usus* and *usus fructus* rights from collectives to peasant farmers', and that this transformation 'led to huge increases in agricultural productivity and [launched] China's 30-year growth explosion' (Hodgson, 2013, 224). Under the Commune System, the collective held the full bundle of property rights—what may be described as a form of 'collective' full ownership. As Kung observes: 'From a property rights perspective, Chinese farmers on the collective farms were thus deprived of the bundle of rights; namely, control, income, and the rights to alienate the former rights that collectively make up private property rights' (Kung, 2000, 703).

Under the HRS, property rights are distributed among different legal persons. This represents a case of split ownership in Honoré's terms. The property rights held by peasant households are widely regarded as incomplete. As Kung (200, 86) notes, 'While the dismantling of the collective farms may be regarded as radical in its own right, there is no denying that the reform was far from complete from a property rights standpoint. The ultimate "triad" of the three bundles of property rights, namely, the right to transfer use and income rights in land, had not been reassigned to the farmers upon decollectivization.' Kung views property rights under the commune system (CS) as *full ownership*, whereas under the household responsibility system (HRS), property rights become *split ownership*. He uses the terms 'complete' and 'incomplete' as substitutes for Honoré's concepts of 'full' and 'split' ownership. However, Kung and others often display a normative bias against what they call 'incomplete' property rights. For example, Kung writes: 'While the dismantling of the collective farms may be regarded as radical in its own right, there is no denying that the reform was far from complete from a property rights standpoint. The ultimate "triad" of the three bundles of property rights, namely, the right to transfer use and income rights in land, had not been reassigned to the farmers upon decollectivization' (Kung 2001, 86; see also Kung 2002c, 52, 65). Kung and Cai assert that 'an incomplete regime of private ownership can undermine economic efficiency although it had

"increased agricultural productivity and output during the initial reform period (circa 1979-1984)."' (Kung and Cai 2000, 276). There is no reason to assume that only full Blackstonian ownership can promote economic growth. In fact, ample evidence shows that this form of full private ownership has often failed and sometimes obstructed radical reform (Ireland, 2024).

The shift in property rights from collective to household production has been blamed for the decline in grain production after 1985 (see, e.g., Prosterman, Hanstad, and Li, 1996). They argue that it is "the incompleteness of property rights reform, that is, ownership remains collective, and peasants do not have secure rights over the land they are working. This keeps peasant investment in and enthusiasm for agriculture low" (Oi 1999, 618). These peasants welcomed the 'half-privatisation' but argued that it should be full privatisation. These critics are unable to imagine any property rights other than 'full liberal ownership' (see, e.g., Commons, 1968 [1924] and Honoré, 1961) or Blackstone's 'sole and despotic dominion' (Blackstone, 2016 [1766]). Thus, property is, by definition, private property even if it is state owned or collectively owned. Demsetz categorizes property into three types: 'communal ownership, private ownership, and state ownership' (Demsetz 1967, 354). He favours private ownership over both communal and state ownership. Later, he applauds the triumph of private ownership over common ownership, writing: 'The transformation from socialism and communism to capitalist style economies that has been underway in eastern Europe, Russia, and China during the last quarter century has brought private ownership of resources to a previously unattained level of importance in the world' (Demsetz, 2002, S653). However, the binary division of property rights into private versus public property (see, e.g., Demsetz, 2002) is highly simplified (Ostrom 2010). Further, it narrows the scope of institutional possibilities (Ireland and Meng, 2017).

Adopting Demsetz's paradigm that only private property is clear, some claim that the property rights under the HRS are ambiguous. For example, Zhu Ling and Jiang Zhongyi pose the question, 'Who owns the land?' under the HRS and conclude: '*No one* in the community is a real owner of land.' They refer to this as '*vagueness* in land ownership' (Zhu & Jiang, 1993, 447, italics added). Peter Nolan agrees, writing: 'The rural reforms of the late 1970s and early 1980s left property rights in land *unclear*.' (Nolan, 1993, italics added). Asking the same question, Peter Ho arrived at different conclusions. According to him, 'the same plot of land' was apparently 'owned by as *many different persons and legal entities*' (Ho, 2005, 2, italics added; see also Ho, 2001, 2003, 2013, 2015). 'Which is it? No one or everyone?' (Ireland and Meng, 2017, 371). Qiao Shitong and Frank Upham suggest, asking 'who owns China's land' is unhelpful and, in a sense, misleading (Qiao and Upham, 2015). If property rights are not concentrated in a single individual, it is often preferable not to speak of 'ownership' at all, according to some scholars. This reflects the approach taken by Demsetz. For instance, he (1998, 450) argues that the 'generally more correct approach is to avoid speaking of asset ownership unless all rights to the asset are owned by one party'. From this perspective, the property rights structure under the HRS does not amount to full ownership in the traditional sense. As a result, these rights were often criticised as 'ill-defined' or 'unclear' (see, e.g., Fewsmith, 2008; North, 2005b; World Bank, 1990).

This so-called ambiguity was already predicted by Honoré (1961, 111–112), who noted: 'The existence of more complicated cases in which layman and lawyer alike may be puzzled to know which, of two or more persons interested in a thing, to call owner, or whether to say, on the other hand, that neither or none is owner'. The ambiguity arises because observers fail to recognise that this is a form of split ownership, in which property rights are distributed among two or more persons. In this sense, the structure of property rights under the HRS presents an intellectually rich and contested terrain. Peasants are sometimes described as being confused about who the owner is. However, this does not apply to most Chinese peasants. The majority do not share this misunderstanding regarding the question of 'who is the owner'. As Kung observes: 'Farmers are apparently aware of such a difference (of whether the land they farm is privately owned). According to a study conducted by China's State Council, less than 3% of the 800 households being surveyed think of themselves as the de jure landowner; the majority see themselves as merely having use rights that have been contracted to them' (Kung 2000, 703; see also Kung & Liu, 1997, 38). These scholarly views do not accurately represent or reflect the situation on the ground. The HRS requires more finely tuned, multidimensional measures of property rights regimes. Split ownership is not necessarily unclear, nor should it be equated with ambiguity.

Hodgson writes: 'Notwithstanding these problems, China's rural growth has been stimulated by the devolution of partially insecure but largely viable property rights (Oi, 1999)'. He and others see the property rights are 'insecure'. Geoffrey M. Hodgson and Kainan Huang (2013, 611) assert that 'use rights are sometimes curtailed through expropriations or compulsory purchase with little compensation. The greater problems lie with the security of some property rights, rather than with their vagueness'. The communal nature of land reallocation does not necessarily equate to tenure insecurity. As Kung and Cai argue: 'Whether tenure is rendered insecure by periodic land reallocation is largely an empirical issue, depending on farmers' perceptions' (Kung and Cai, 2000, 300). Under the HRS, peasants were granted the rights to use, manage, and retain residual income from the land. These rights were recognized and agreed upon by all relevant parties: the state, the collective, and peasant households. The products of peasant labour were typically divided into three parts: state procurement, collective reserves, and the peasants' residual claims. Honoré's theoretical framework of ownership, particularly his notion of split ownership, can be effectively applied to the HRS. In this context, split ownership under the HRS evolved from the full collective ownership model of the Commune System (Meng, 2016, 2019; Ireland and Meng, 2017; Deakin and Meng, 2021).

7. 7 *The Evolution of Property Rights under the HRS: From Separation of Two Rights to Separation of Three Rights*

The HRS has been described as a 'two-tier system' or 'dual-track land system'. As Dong (1996, 915) notes, 'The land tenure system in the post-reform era is known as a two-tier system, with use rights vested in individual households and the ownership rights in the village cooperative' (see also Zhang and Donaldson, 2010). This is also referred to by Chinese scholars like Dong as the 'separation of two rights'. In Honoré's terminology, the peasant household holds the broad sense of 'use' rights, including use, management, and income, while the collective retains

the right to possession of the land. The relationship between households and the collective can also be considered analogous to that between tenants and a landlord. The HRS is one vivid 'contemporary examples of successful resource management based on neither exclusionary private property nor exclusionary public or state property – hybrid forms where Honoré's incidents of ownership are split between individuals and collective bodies' (Ireland, 2024,173; cf. Ireland and Meng, 2017). Exactly, 'the HRS provided individual farmers with incentives to increase productivity within a broad framework of collective control' 'by dividing the rights in the ownership bundle (Honoré's incidents of ownership) and allocating them variously and with restrictions to individual households and collective bodies' (Ireland, 2024, 260).

At first glance, the property rights in a piece of land appear to be divided between the collective and the household. However, the state is also a key party, as it has withdrawn the right of alienation, what Honoré terms 'the right to the capital' (1961, 119), into its own hands. The state, as the default authority, holds an interest in food security, social stability and rural development. In discussing property rights, it is worth asking who creates property rights for whom and realise what kind of purpose. In the case of the HRS, the rules governing resource allocation, production and income were initially created by peasants in Xiaogang. These rules were eventually sanctioned by the state and thus became the formalised rules equivalent to the property rights under the HRS. On the one hand, it can be argued that the property rights under the HRS were originally created by the villagers of Xiaogang. On the other hand, it can also be argued that it was the state that institutionalised these rights in order to accommodate the interests of all three parties.

Since 2013, the Party and the government have also promoted the concept of the 'separation of three farmland rights', namely: clarifying land ownership, stabilising land contracting rights, and liberalising land management rights (Wang and Zhang, 2017; Gong *et al*., 2023). The effective implementation of this separation depends on a series of institutions. For example, a clear and reliable system for the registration and confirmation of land rights is essential. By the end of 2018, over 95 per cent of such registration had been completed. In December 2018, the Standing Committee of the National People's Congress approved the Amendment to the Rural Land Contract Law, which came into effect on 1 January 2019. This institutionalised the 'separation of the three powers': the separation of ownership rights, contract rights and management rights for contracted land. It has contributed to the emergence of 'new style' farms, including large family farms, cooperative farms and farms operated by agribusiness companies (Zhang and Donaldson, 2010).

In Honoré's terminology, 'the right to manage' depends, legally, on a cluster of powers, chiefly powers of licensing acts which would otherwise be unlawful, and powers of contracting: 'the power to admit others to one's land, to permit others to use one's things, to define the limits of such permission, and to contract effectively in regard to the use (in the literal sense) and exploitation of the thing owned' (Honoré 1961, 118). The No. 1 Central Document of 1984 introduced the concept of 'land circulation (transfer)' to encourage the consolidation of farmland, allowing land to be allocated to those capable of cultivating it upon the expiry of land contracts (Chen 2019, 10; Chen 2020, 465). The government also recognised and

legitimised land rental markets through a constitutional amendment in 1988, which confirmed the principle of transfer under a 'valued use system' by adding that 'the right to the use of land may be transferred according to law'. Since Chinese peasants hold land contracts with the collective, the right to manage land is, in essence, a sublease. Once subletting was permitted, peasants were also able to contract with others regarding the use of their land and rent it out. Article 128 of the 2007 *Property Law of the People's Republic of China* explicitly permits the subcontracting of land. When emphasis is placed on protecting the interests of both the sublessor and the sublessee, this is referred to as the 'separation of three rights' into three distinct parties: the collective, the contractor, and the operator. As Xi Jinping stated in the *Report to the 19th CPC National Congress* on 18 October 2017, the goal is to 'improve the system for separating the ownership rights, contract rights, and management rights for contracted rural land' (Xi, 2017, 28).

Both the two-rights separation and the three-rights separation conceive of the state as the default party. On the one hand, the Chinese Communist Party and central government have consistently emphasised the need to consolidate and improve the basic rural operating system—the two-tier system combining centralised collective operation with decentralised household operation (Chen, 2019, 465). On the other hand, they also needed to consider how to improve the efficiency of farmland use, particularly of unused or abandoned land in the context of rural-to-urban migration. According to China's *Statistical Yearbook*, the urbanisation rate rose from 17.9% to 54.5% by 2014, and the arable land transfer rate reached 30.4% in the same year (Han, 2015, quoted in Wang and Zhang, 2017).

8 Conclusion

The micro–meso–macro analytical tool developed by Dopfer *et al.* (2004) is suitable for analysing the institutional shift from the CS to the HRS. Dopfer *et al.* view an economic system as comprising a population, structure, and the process of rules. Both the CS and the HRS are economic systems, each with its own rule population, structure, and processes. For Dopfer *et al.*, institutional change predominantly occurs within the meso domain. Indeed, the institutional change from the CS to the HRS took place in Anhui Province and other provinces, where the origin of generic rules and their subsequent diffusion occurred. They argue that rules at the micro level cannot be aggregated into the macro level without the meso level. This is particularly true in the Chinese case. The rules created by Xiaogang peasants could not be translated into national policy at the macro level without the protection and facilitation of officials such as Wan Li in the meso domain. Similar rules emerged in a village in Guizhou Province over ten years earlier, but they remained underground, and their benefits were small scale. The successful lessons from small-scale institutional arrangements cannot be directly scaled up into large-scale institutional arrangements without macro support.

Compared with the traditional dual distinctions of micro and macro in neoclassical economics or the dichotomy between state and peasant, Dopfer *et al.*'s (2004) three-tier analytical framework is indeed more complex. However, when faced with complicated phenomena such as the institutional change from the CS to the HRS, we should be prepared to

embrace this complexity rather than reject it. The micro–meso–macro framework is a more powerful analytical tool for understanding the Chinese case. In turn, the Chinese case confirms Dopfer *et al.*'s insights.

However, the micro–meso–macro framework cannot explain all the puzzles surrounding the institutional change from the CS to the HRS. The HRS was not merely the outcome of economic efficiency but the result of a socially and politically constructed process. We must pay attention to legitimacy, ideology, belief conversion, and power struggles during this transformation. We should model the political process in developing countries such as China (North, 1994), and 'widen our view and study a much more diverse set of rule systems' (Ostrom and Basurto, 2011,335). The political process of institutional change from the CS to the HRS contributes to a more complete understanding of the nature, role, and characteristics of institutions in economic growth. The CS, under Mao's communist experiments, led to a quarter-century of economic stagnation and a decline in agriculture. By contrast, the HRS resulted in more than four decades of spectacular economic growth and poverty reduction. The polity plays a crucial role—there is nothing automatic about market forces.

Insights from new institutional economists provide additional explanatory power. The transformation also cannot be fully accounted for by transaction cost theories developed by Coase. Under the CS, the state faced high costs in monitoring and measuring labour, whereas the HRS reduced these costs by internalising externalities. Thus, while transaction cost theory helps to explain the economic gains, it does not fully capture the broader institutional dynamics at play.

Ostrom's theory of collective action, which focuses on trust, reciprocity, and reputation, helps explain how the villagers of Xiaogang were able to secretly initiate agreements to contract production to individual households by dividing collective land, draught animals, and other resources, and assigning duties among themselves. North incorporates adaptability into his theory of institutional change, particularly through the trial-and-error process. This is well illustrated in the post-Mao era, when the Chinese central government reduced economic policy rigidity and increased flexibility, encouraging local-level experimentation and initiatives. North also raises critical questions about who creates property rights, for whom, and for what purpose. These questions are highly relevant to understanding the HRS which was initially created by peasants themselves to address basic shortages of food and clothing and was later adopted by the central government as a formal property rights arrangement due to its strong social and economic performance. Indeed, property rights form the incentive structure of an economic system. By clarifying ownership and returns, the HRS motivated peasants to increase production, thereby improving agricultural productivity.

Successful institutional change cannot be attributed solely to the efforts of peasants and local officials. It requires coalitions capable of mobilising support and forming reform-oriented groups. Coalition theory, developed within historical institutionalism, provides a useful framework for understanding institutional change at the national (macro) level. Backed by Deng Xiaoping, Wan Li worked alongside Hu Yaobang, Zhao Ziyang, and others to coordinate

efforts across provinces in institutionalising the HRS as national policy. Thus, the HRS was transformed from a grassroots communal arrangement into a formal government institutional arrangement.

The state and political power play a crucial role in the development of capitalism in the West, as illustrated by legal institutionalism. This insight is confirmed by the series of No. 1 Central Documents issued under Hu Yaobang's leadership between 1982 and 1986. At the same time, the Chinese case enriches and broadens the scope of legal institutionalism by demonstrating its relevance beyond Western contexts. It shows that in developing or transitional societies, the role of political power should never be underestimated. A *laissez-faire* approach is not appropriate for addressing development challenges in these contexts.

The transformation from the CS to the HRS represents a successful institutional change that led to spectacular economic growth and large-scale poverty reduction, making it one of the most remarkable achievements in human history within a short period. Its successful lessons deserve further study. While China is often perceived as a dictatorship rather than a democracy, the egalitarian distribution and redistribution of land reveal a form of genuine economic democracy that creates equality of opportunity and realises political and social rights. The transformation of the HRS from a community-based institutional arrangement into a government-led one demonstrates a democratic element in this process. A more comprehensive theory of democracy and development should incorporate the Chinese experience to enhance its explanatory power.

The key takeaway for developing countries is that, in designing institutions for agricultural development, peasants' economic interests and political rights must be protected, and their preferences and perceptions respected. Their creativity and wisdom should also be valued. The current policy prescription of land privatisation for development is highly misleading. There is no peace in land ownership under such a model, and more inclusive, hybrid property rights such as those embodied in the HRS should be considered, as they accommodate the interests of various parties.

This article focuses on institutional change in Anhui Province, regarded as a typical case within the meso domain. Further research on other provinces including those that advocate the HRS such as Sichuan, Guizhou and Inner Mongolia, as well as those that oppose it such as Jiangsu, Shaanxi and Heilongjiang, may help to understand the complex process of its emergence and prevalence.

Appendix

Table 1. Average annual growth rates of agriculture, 1952–1987 (per cent)

Subsector	1952–1978	1978–1984	1984–1987
Crops	2.5	5.9	1.4
Grain	2.4	4.8	–0.2

Subsector	1952–1978	1978–1984	1984–1987
Cotton	2.0	17.7	–12.9
Animal husbandry	4.0	10.0	8.5
Fishery[1]	19.9	12.7	18.6
Forestry	9.4	14.9	0.0
Sidelines	11.2	19.4	18.5
Agriculture (overall)	**2.9**	**7.7**	**4.1**

[1] Fishery growth in the 1952–1978 period reflects a low starting base and rapid sectoral development.

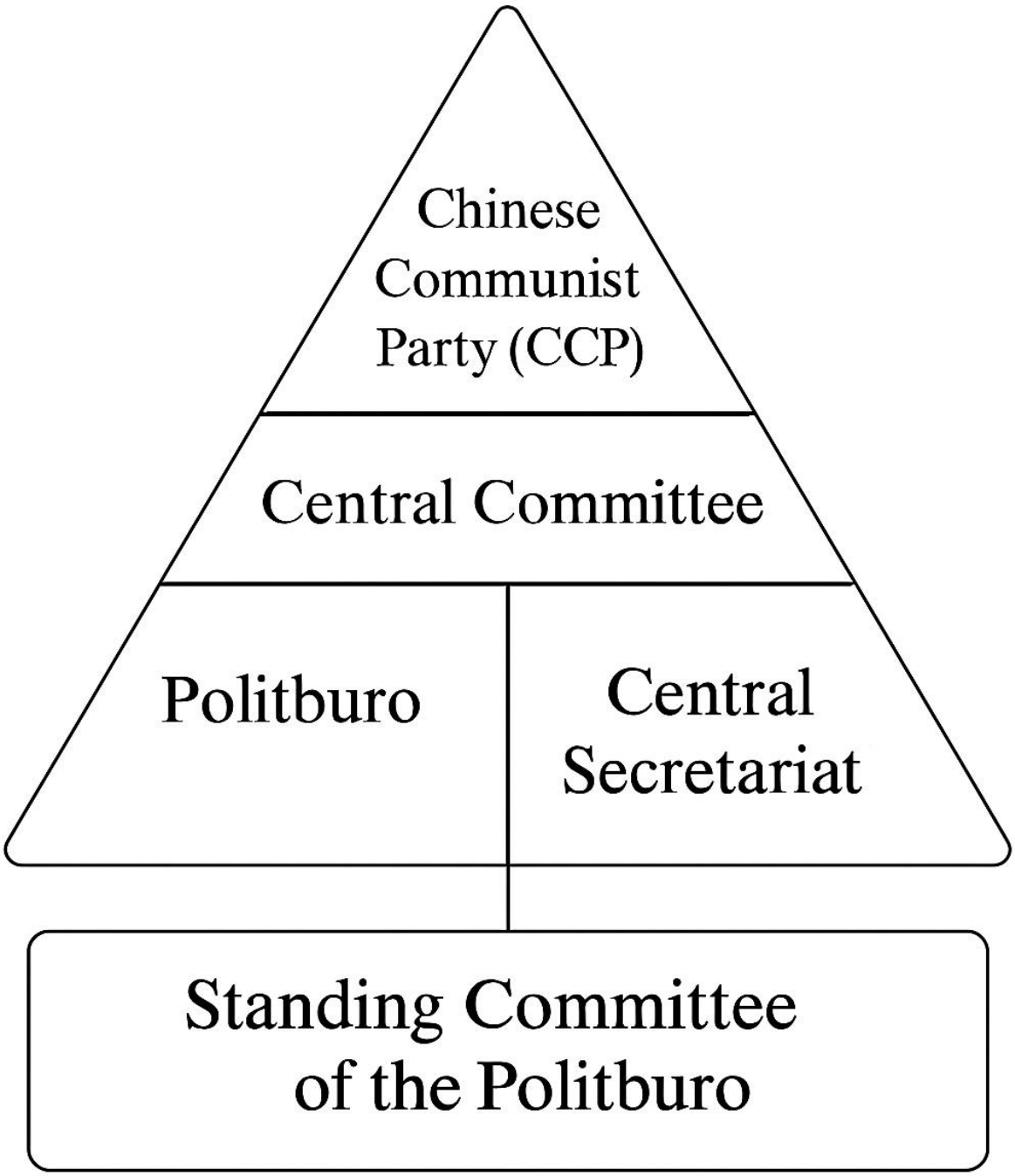
Source: Ministry of Agriculture Planning Bureau (1989: 112–115, 146–149, 189–192);

Table 2. Trends in Organisational Structure and Land Ownership: Upward and Downward Dynamics

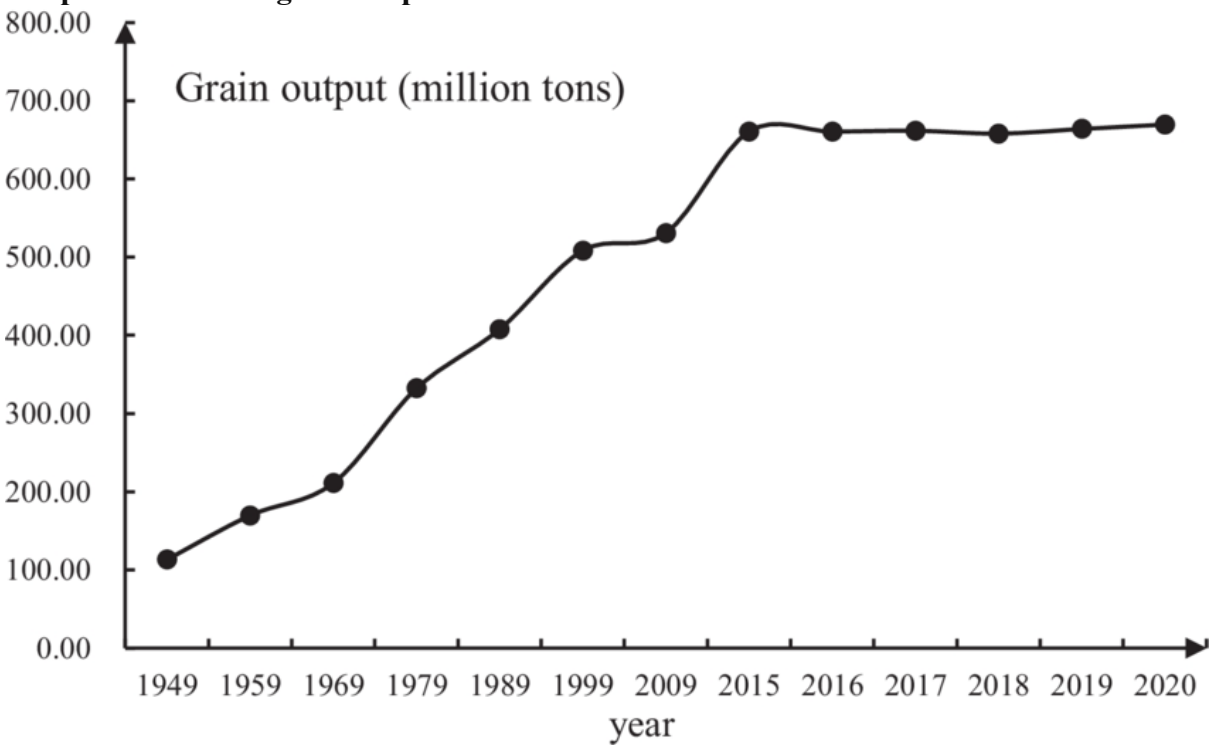
Trend	Description	Key features	Examples
Upward trend	Movement from smaller to larger organisational units, emphasising collective ownership	Production team to production brigade to commune; promotion of ‘public’ ownership and collective control	The Dazhai model; the ‘Learn from Dazhai’ campaign promoting the production brigade as the basic unit
Downward trend	Movement from larger to smaller organisational units, increasing individual control and responsibility	Commune to production brigade to production team to small groups to individual households	The four decentralising movements during the Mao era foreshadowing the HRS; Wan Li’s promotion of household farming

Ministry of Agriculture (1989: 28, 34). Cf. Lin, 1992: 35.

Diagram 1. The connection between the CCP and Politburo

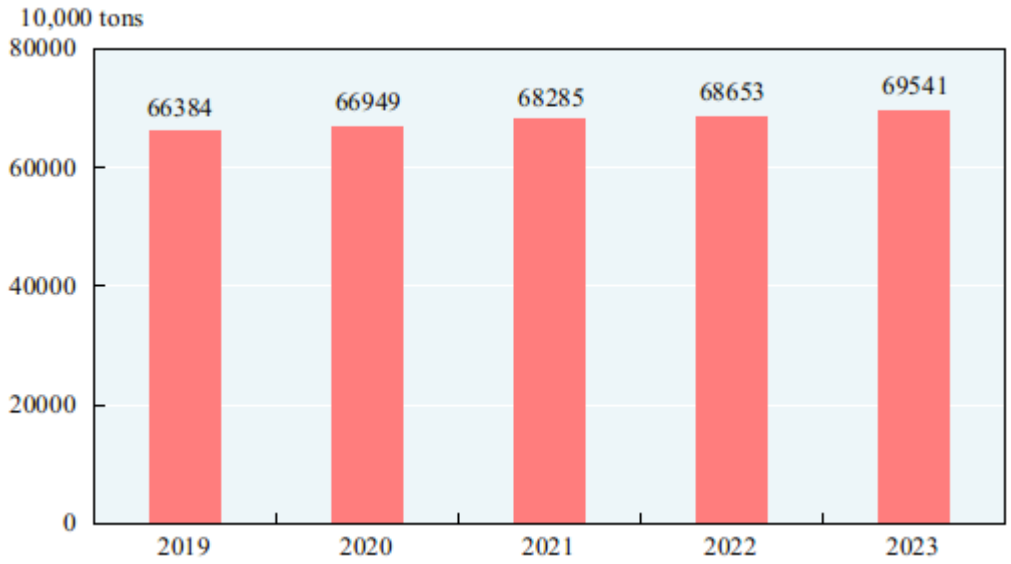

Chinese Communist Party (CCP)
Central Committee
Politburo
Central Secretariat
Standing Committee of the Politburo

Graphic 1: China's grain output from 1949 to 2020



China Statistical Yearbook and 60 Years of New China Statistical Data Compilation

Figure 1: Output of Grain 2019-2023



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