Institutions for Poverty Alleviation in China

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1. Ever-Normal Granary System/Commodity Loan Program

2. Charity Granary System

3. Communal Granary System

4. Mutual Financing Association

5. Friendly Society
Mencius (372-289 B.C.) on the need for grain storage

• “When the grain is so abundant that even dogs and swine eat the food of man, you [the government] do not make any collection for storage. When there are people dying from famine on the roads, you do not issue the stores of your granaries for them, but blamed the famine on bad weather.”
Ever-Normal Granary System

• In good years grain will be over supplied, price will drop, and farmers might not make enough profit to sustain their farms.
• In bad years grain will be under supplied, price will increase, and consumers need to pay high price for food -- inflation.
• In good years, farmers are hurt; in bad years, consumers are hurt. So it is beneficial for the society if the price of grain can be kept stable.
How to keep the price of grain stable?

- Buy at higher than the market price, and sell at lower than the market price.

When the price of grain was low, the government should buy it at the normal price, higher than the market price, in order to profit the farmers. When the price is high, the government should sell it at the normal price, lower than the market price, in order to profit the consumers.

- Merchants, on the contrary, buy low and sell high. Merchants will even artificially limit the supply of grain so to raise the price.
The Ever-Normal Granary System

- First established in China in 54 B.C., during Han dynasty.

- Two important functions of the Ever-Normal Granary System:
  1. Price control
  2. Famine relief
The Practice of the Ever-Normal Granary during Qing Dynasty

- The ever-normal granary system was first established in 1655 by the imperial government. According to the regulations, one or more government storehouses were to be built in every county and managed by the local magistrate.
- Quotas were fixed for all parts of the empire. Regulations adopted in 1691 specified a storage of 30 tons in a large district, 24 tons and 18 tons in smaller ones.
Purchases of grain were to be made each year after the autumn harvest, either locally or wherever the prices were relatively low.

To avoid rot through long storage, a fixed portion of the grain, usually 30% of the reserve, was sold below market prices each year in the spring and summer months and replenished after harvest.
In agricultural societies, grain is not only the subject of consumption and production, but also the means of exchange and distribution. Relief loans were made to peasants who were short of seed or food.
Huan-Chang Chen, Ph.D. Columbia University, 1911. Dissertation: “Economic Principles of Confucius and His School”
Henry Wallace, Secretary of Agriculture, 1933-40
The Agricultural Adjustment Act of 1933 and 1938
Henry Wallace wrote about the ever-normal granary in a weekly magazine, Wallaces' Farmer, first in 1918, and again in 1926 and 1927. In the issue of December 6, 1918, he wrote: "If any government shall ever do anything really worth while with our food problem it will be by perfecting the plan tried by the Chinese three thousand years ago; that is, by building warehouses and storing food in years of abundance, and holding it until years of scarcity."
Commodity Loan Programs

Implemented in the US in 1933, the Agricultural Adjustment Act of 1933.

The programs allow farmers to receive loans from the government at a crop-specific loan rate per unit of production by pledging production as loan collateral. A farmer may obtain a loan for all or part of a crop at any time following harvest through the following March or the following May, depending on the crop. Most loan placements occur shortly after harvest, when prices tend to be seasonally low, and provide short-term financing to farmers.

Implemented in Jiangsu, China in 1932.
Charity Granary System

- In 1136 a high official proposed that each city should establish the charity granary.
- During harvest, each farmer was advised and encouraged to contribute voluntarily rice and wheat, proportionately to his crop. This should be stored up in the granary, and a committee of that city should be in charge of the annual collection, the care of storage and the account. During a bad year, if the inhabitants of that city should be in need of food, the grain of the granary should be given to them.
The grain stored in the charity granary was loaned out in spring and repaid in autumn, with an interest charge of 10%. Those whose harvests suffer a loss of 30% or more shall have the interest charge waived. Those who sustain a loss of over 50% may postpone the payment of the loan till autumn of the next year.
This system was a socialistic measure: it got more taxes from the rich and gave more benefit to the poor.

1. The tax was very small, and it was in accordance with ability.
2. The rich could participate in the social benefit just as much as the poor, otherwise they would lose more than the poor by the disturbance of peace.
3. As they lived together in a small community, the rich for ethical reasons were willing to help the poor.
4. As the account was in the hands of the rich, they knew perfectly its financial condition, and had no fear of the corruption of the officials.
Communal Granary System

Communal Granary System was introduced by a great philosopher, Zhu Xi 朱熹 (1130-1200), in 1168.
A Communal Granary Storage Building in a Japanese village
It was originated in Fujian, China in the summer of 1168. When the people of his district were hard pressed for food, he asked the county government to give him 3.6 tons of government grain from the ever-normal granary for the purpose of relief. The harvest of that year was successful and the people were able to repay the loans in full. The grain, however, was not immediately returned to the ever-normal granary but was kept for more than a dozen years in the district to be loaned in the summer and collected in the winter with a 20% interest for the period. The interest was reduced to 10% in years of slight famine and canceled completely in years of serious famine.
As a result, the grain which had been accumulated by 1181, after repaying the original 3.6 tons, amounted to 18 tons stored in three granaries, which had been built with funds from the grain interest. After that year loans were made at the reduced rate of 3% per period.
Upon the request of Zhu Xi in 1181, the Emperor issued an edict encouraging the various districts to follow this successful precedent. In most cases, the initial capital was granted from government granaries.
• Although the project was under government supervision, the management was in the hands of village elders, local literati, and retired officials at home. The most important characteristics of the communal granary was its emphasis on an independent management to avoid government interference.
Comparison of the three granary systems

- The ever-normal granary was entirely under government management. The grain reserves came from government sources and purchased with government funds.

- The charity granary belongs to the people, though always subject to official supervision and inspection. The grain is collected as an addition to taxation -- compulsory saving in the form of surtax. The main purpose of the charity granary was redistribution.

- The main purpose of the communal granary was loan, very similar to the credit union system introduced in Germany in the mid 19th century.
Money Raising Institutions

In Chinese history there are four money raising institutions.

1. Pawnshop
2. Lottery
3. Auction
4. Cooperative Loan Society
Cooperative Loan Societies

• The man who is in need of money invites certain of his friends to cooperate with him. The simplest of the many plans by which mutual loans are effected, is the contribution of a definite sum by each of the members of the society in rotation to some other one of their number. When all the rest have paid their assessment to the last man on the list, each one will have received back all that he put in and no more.
In societies where the rate of interest is fixed, the only thing to be decided by lot, or by throwing dice, will be the order in which the members draw out the common fund. But if, as often happens, the interest is left open to competition, this competition may take place by a kind of auction, each one announcing orally what he is willing to pay for the use of the capital for one term, the highest bidder taking the precedence, but no member ever has a second turn.
• If the oral method of competition is not used, a still better plan may be adopted. This consists of prepared slips, like ballots, noting an offer of interest, deposited by each member in a box, the highest bidder getting the precedence. It is easy to see that in this way, the interest to be paid might not be the same for any two loans, in which case there would seem to be inevitable some complexity in the accounts.
Friendly Society in China: Lu Family Community Compact, 1076

- mutual encouragement in the performance of worthy deeds
- mutual admonition in the correction of errors and failings
- reciprocal engagement in rites and customs
- mutual aid in times of distress and misfortune”
This community compact was originated by community members rather than imposed by the government. Everyone was welcome to join and free to leave. The compact stipulated democratic elections: “One or two impartial and just members will be elected as the compact enforcers, in charge of evaluating the appropriateness of assessments, decisions, awards, and penalties. Finally, the compact welcomes public deliberations. “If there is anything inappropriate in the compact, members are welcome to discuss it and make appropriate revisions.”
• The notable feature of the community compact is on mutuality, reciprocity, and cooperation among community members. These values, rather than the imposition of superior power or punitive law, were to be the basis for the proper conduct of public affairs on the village level. A combination of self-respect and mutual regard among persons as the natural means of upholding a voluntaristic social order, which was seen as preferable to any enforcement of state control from above.
The Lu Family Community Compact was “a ground-breaking institutional innovation for establishing village self-governance beyond the scope of the traditional emperor-official administrative framework.”
Community Self-Governance in China

- Zhu Xi (1130–1200): community granary
- Lu Kun (1536–1618): public security
- Zhang Huang (1527–1608): ethics, public security, community granary, public education

- Burial Society
The End
Ever-Normal Granary System: Its Weakness

• Some of the magistrates do not want to buy grain when the price is low because they like to save themselves trouble.

• In some cases, the officials do not know the real price, and let the employees, together with the merchants, defraud them. When the farmers hurry to sell their grain, the employees purposely give a lower price, in order to make the farmers sell it not to the government but to the merchants. After the merchants buy enough of it, they begin to raise the price. Therefore, the farmers get only a low price, and the government pays a high price.
• In some other cases, even if the officials want to buy it at proper times, they are obliged to send word from the district to the prefecture, from the prefecture to the superior of the province, and from the province to the imperial capital. When the answer comes back, months have passed, and the price is doubled.

• The grain purchased at high price might be stored in the granary for years because the local government would not dare to sell it because the market price is still lower than the purchase price. The grain then becomes a waste after a few years.
• Moreover, the ever-normal granaries were established only in cities, it benefits only the people living in the cities. As for the farmers in the mountain districts, even if they are dying of hunger, the grain cannot reach them.

• Moreover, the laws are too complicated; its result is that even when the officials see victims of famine, they do not dare to issue the grain. Usually they lock the granary up and hand it down to their successors without its being touched for several decades. During an emergency when the grain is necessarily issued, it has become dust and dirt which cannot be eaten.
The operation of the ever-normal granary involves procurement, dispensation, supervision, and management. The chief reason for its failure is that it is difficult for officials to undertake commercial functions along with political duties.