1. Market economies provide a means by which resources are distributed to secure maximum returns to their owners. Owners and users are assumed seek maximum profit.

Owners sell them at the highest price available and users, ultimately consumers, buy at the lowest price they can find. All participants in the market, buyers and sellers have perfect knowledge about what prices are available.

2. Given this restricted model resources move to secure the greatest value possible, given the preferences of people, the resources available and the known technology.

3. In the real world such conditions are never met, knowledge is imperfect, some players in the market may be able to influence prices by varying the amount they sell or by segmenting markets to secure higher prices from some users than others.

Resource owners are seldom motivated simply by money profit – some commit their assets to a business they enjoy regardless of money profit, some seek to support charities by allowing them to acquire resources at lower prices because they approve of the objectives of the charity.

In some cases the level and distribution of resources or of income is seen to be so unsatisfactory that governments intervene with policies for public goods, such as education or health or through social security or pensions to support those whose income from the working of markets is judged to be too low.

4. In contrast centrally planned economies start with a political decision about what use should be made of available resources. Managers of businesses are given targets and supplied with resources to deliver and fulfil a national economic plan.

Competition for resources is not via price but through seeking the political approval of the government.

5. Here too things can go wrong. Production can fall short of demand leading to situations in which those who actually consume the goods are those who by political influence or black markets can influence those who control them.

Over supply is also a major issue. Goods, which have to be produced to meet the plan, may continue to be produced although products remain unused. Planned systems offer little incentive for innovation in product design or production systems.

6. The unsatisfactory nature of either market or centrally planned economies, have led governments to adopt mixed systems. The balance of mix varies widely even within the same economy.

China, who in the early days of Communist rule would have been seen as the archetypal planned economy has more recently relied on market forces to stimulate and steer large parts of it industrial life. The results have been explosive with sustained rates of growth that have allowed it to become the second largest economy in the world.

7. In agriculture, especially in grain production the state has continued to intervene. It has encouraged grain production in the drier north by moving water from the south to the north. The proportion of grain produced in the south has fallen, with the result that since 2013 there have been shortages and grain has been shipped from the north to the south. (Qin)

To encourage production in the north, the Chinese government has invested heavily in water conservation in the north and the movement of water from south to north. Farmers cannot afford to pay the full price of water for grain production in the north and so receive a subsidy to do so.

8. This mixture of planned and market economies does not work well. In the south, growing demand for labour and capital for industrial development has induced a flow of resources out of agriculture.

In a market economy this flow would be offset by higher prices for grain, as local supplies declined, an incentive that would attract new resources and the restructuring of existing farm land to employ high productivity methods in agriculture – yielding incomes that could compete with those in industry.

9. Similarly the provision of subsidised water for irrigation in the North, results in grain production at high cost and significant environmental damage.

Reforming this whilst ensuring rising real incomes for those affected cannot be achieved by agriculture alone. What is required are new flows of income from expansion in other sectors and a willingness to restructure farming into units capable of supporting those who work on them.

10. Managing economic change is always difficult. To do so at the speed and in the depth achieved in China is astounding. In the farming sector such changes involve intense emotional challenges as well as the practical issues of supplying new capital and new ideas. Farming is the cohesive economic activity of the rural element. Profound changes disturb this, often leading to the departure of the younger, more vigorous members of the community, leaving aging and decaying villages in their wake.

There are no pain free solutions but it seems clear, as Qin's paper suggests that if China is to overcome the imbalances between the economic and environmental imperatives of its agriculture market forces need to be given a stronger role.

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Professor Sir John Marsh

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Comments