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Social Policies in China and India:

the Role of Land Ownership and of Economic Size

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Issues of social policy— their evolution, role in ensuring minimum equity, developmental functions and future directions— are especially worth exploring in respect of China and India. The two countries are sufficiently similar in terms of economic size, developmental stage and the challenges they face, but are dissimilar enough in terms of the larger socio-economic and political institutions and systems, history and culture as to make them natural candidates for an in-depth comparative study of developmental experiences. Focusing on social policy, Arjan De Haan (2013) makes a useful attempt in that direction.

In this short comment I shall point to two crucial factors which I consider critical components of a meaningful comparison between China and India regarding the role of social policy in the development process.

First, China has had public ownership of land, while India has not. This appears to have played a major role in China of facilitating expansive government-led infrastructural investment, industrial-park and urbanisation policies and programmes, all of which are important sources of recent economic growth in the country. While in India, under private ownership of land, similar programmes might have seriously depleted government revenues and might in any case have been legally and administratively difficult for the government to push through, in China large sales of publicly owned land have actually been a major source of local governments' revenue to finance these programmes since the early 1990s. However, this has also had negative effects. Eager to see rapid increases in the proceeds from their land sales, China's local governments have been key instigators of escalating land and housing prices, resulting in an expanding bubble which now threatens to engulf the whole economy.

But not only has public ownership of land had a major effect on China's economic growth path, it has also had an important impact on social equity and development of social policy in the country. To begin with, its effect on income distribution is self-evident. But it has also been a key cornerstone of the rural Household Responsibility System, under which each household is entitled, in a highly equitable manner, to a piece of land. This land cannot be sold by the household (except if the government wants to take it over), nor can anyone amass large tracts of land by buying other households' land. Such a system has raised issues of land productivity, but it has functioned as a key instrument of social protection for poor people in rural areas. And it also serves to set a basic wage for rural migrant workers seeking work in cities, thereby helping prevent large-scale urban poverty. The fact that urban poverty in China is only a fraction of the level in India has much to do with its land entitlement system (Ravallion et al., 2007).

Second, both China and India are exceptionally large emerging economies, with the world's two largest populations. There are clearly benefits from this large size, including a larger pool of human talents and other resources, and a larger domestic market. But it also has clear adverse effects, including greater differences in social and economic conditions within a country, resulting in greater inequalities and greater needs for resources and markets to achieve targeted economic development.

In particular, if economic development is conceptualised as a Lewisian process, driven but also defined by transferring abundant rural surplus labour to the more productive sectors of industry and services, then there are clear limitations of a developmental strategy relying on export markets and foreign direct investments (FDI) to power a large country's developmental process.

For one thing, any significant increase in its exports, for which it has a comparative advantage, may seriously flood the international markets for those goods and services, significantly reducing the price for them and net returns to the country. For another, any dependence of such an economy on inflows of FDI to power and complete the Lewisian process must be very limited indeed, for this could account for a major share of the world's total available flows. While a smaller emerging economy might well rely, wholly or in major part, on such inflows to complete its Lewisian process, for an (exceptionally) large economy such as China and India this s trategy is clearly not viable.

All this has clear implications for the need for and development of active social policy for a large country in the course of economic development. While it might be plausible for a small economy to rely principally on foreign capital inflows to rapidly complete its Lewisian developmental process and then think about developing social policies, for countries like China and India active social policy has to be a key component of such a process, for two reasons: first, the Lewisian process will take much longer to complete, while factors alluded to by Kuznets may well work to significantly increase inequalities over the process, in a way a small economy might well avoid. Second, the need for expanding domestic markets to sustain development will necessitate an active social policy programme, a situation in which China is right now finding itself (Liu, 2011).

The economics profession and social sciences in general have not paid much attention to the importance of economic size in determining the choice of a country's development strategies and polices and the balance of the imperatives of economic growth and social policy development. A study of China and India may well help fill this gap.

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