

# Different Approaches to Provide Public Goods from Private Sectors in Chinese Rural Areas

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**Abstract:** *The dilemma of resource is a prominent problem in the current practice of public goods supply. How to improve the efficiency of public goods supply has aroused widespread attention. Generally, public goods are provided by government due to its free-rider problems. However, in some mountainous areas in China, some self-organized compounds voluntarily provide public goods to meet villagers' demand. This unselfish behavior contradicts the common way of provision of public goods in China but has emerged and expanded in rural areas. To trace the root of these seemingly abnormal event, the essay finds that family ties, cultural and geographical factors contribute to private provision of public goods. In addition, Studies have found that organizing farmers is an important starting point for forming effective social connections. Compared with government, since the self-organized compounds are based on a network of social relations, private provision in rural areas achieves a relative low-cost supervision and efficient management. Economically speaking, the 'clan culture background' of villages can act as a supervision and punishment mechanism, avoiding problems such as mismatch between supply and demand, high transaction costs, and inefficient use of resources.*

**Keywords:** *Provision of public goods, Rural construction, Private sectors*

## 1. Introduction

American economist Pual A. Samuelson defined public goods and explained its properties as non-rivalrous and non-excludable<sup>[1]</sup>. Due to its free-rider problems caused by non-excludability, profit-driven firms would not supply public goods in free market. It is government who plays the main economic function to provide public goods. If we zoom in China, the country is nicknamed 'infrastructure-holic' – having provided a high level of public goods in recent decades, and have had very centralized government structure for centuries, which probably better exploits economies of scale in the provision of public goods as non-rival goods, like national defense, their cost per capita decreases with the number of people who fund it. Therefore, it appears to verify that the conventional theory is compatible with Chinese economy.

However, most rural areas in China still face the dilemma of insufficient supply of public goods. There is an urgent need to promote rural provision of public goods to make up for this weakness in the process of implementing rural construction, thereby enhancing farmers' well-being and sustainable development. American political economist Elinor Ostrom believes that the key to the supply of public goods is whether there are enough people willing to share the cost of product supply<sup>[2]</sup>. Nevertheless, the special properties of public goods make it possible to exclude potential beneficiaries from public goods. The general "free rider" phenomenon will adversely affect the enthusiasm of direct beneficiaries to participate in supply. Despite of this, there are some self-organized compounds voluntarily provide public goods to meet villagers' demand, including widening roads, repairing canals and installing street lights. In 2019, the fund of building the village trunk road partly came from social self-raised funds to widen the road from 4.6 meters to 6 meters<sup>[3]</sup>. This seemingly unselfish behavior contradicts the common way of provision of public goods in China but has emerged and expanded in rural areas.

In 1970s, Deng Xiaoping, an important Chinese reformer, embarked on market policies when he came into power, including downsizing of the government bureaucracy and privatization of state-owned enterprises. Against such a background, the government, profit-driven market entities, and non-governmental and non-profit civil organizations have their own characteristics and can all become the primary source of public goods: the main body of public goods supply is usually the government; profit-driven entities also play a special role in grass-roots public management as an intermediary and bridge between the government and the people; self-organized and self-managed citizens play a leading role in the supply of grass-roots public goods as an effective supplement to existing methods<sup>[4]</sup>.

## 2. Government Failure in Rural Provision of Public Goods

A large-scale country like China may benefit from the economies of scale, but also probably endure the sufferings of organizational diseconomies of scale. Inefficiency arises because of the difficulties of managing a large workforce. The complex political system fails to convey feedbacks from the bottom to up as there are few channels to articulate local interests. Furthermore, principle-agent problem occurs. Politicians may not seek to maximize social welfare as they have their own objectives, which creates innumerable opportunities for graft and corruption. Therefore, as a reaction of discontent with these Institutional weaknesses, citizens in remote areas have begun to seek for decentralization and provide public goods privately to alleviate resource misallocation. This turns the conventional theory of public goods on its head. Rather than government providing public goods in response to market failure, it is the market providing public goods in response to government failure.

In the case of Enshi city in Hubei province, a poverty-stricken mountainous area with long-term problems of poor infrastructure construction and insufficient provision of public goods, although almost all the farmers expect the government to afford the expenditure on repairing roads and improve their living standards, the process of supplying public goods always suffers from argument, obstruction and opposition. The underlying reason is that during the process of road construction, the land of some farmers will always be occupied, but the expenditure budget can only be used to bear the cost of road construction and cannot guarantee the fees of compensation that shall be given to the farmers whose land is occupied. The "transaction cost" or "negotiated cost" occur. Once the cost cannot be negotiated appropriately and the profits are shared unequally to different farmers, the conflict of interests will be triggered, which will trigger governance problems [5]. The state-led public goods supply mode not only fails to solve the problem of public goods supply in rural areas, but also weaken the existing governance rules and organizations of village communities. This shows that the financial resources cannot be completely dependent on the government. In this sense, other methods of supply mode should be created to activate the existing organizational systems.

## 3. Mechanism and Efficiency of Private Provision of Public Goods

To function as an alternative sector of providing public goods, private sectors in Chinese has figured out various approaches to deal with the free rider problems. Table 1 illustrates some classical research and cases:

Table 1: Approaches to provide public goods in different regions.

Regions	Types of public goods	Approaches	Characteristics
A village, Northeast China [6]	Road maintenance, community security	Parliamentary systems and community fund	1. Sufficient and targeted resources used in public goods 2. Involvement of all villagers 3. Bottom to top representation mechanism
B village, Hunan [3]	Road maintenance, construction of activity center and streetlight	Self-organized compounds based on kinship and clan-culture	1. Collective negotiation and joint decision-making 2. Villagers-led 3. Incentives from government
Enshi, Hubei [5]	Road maintenance	The endowment of property right	1. internalizing external cost and benefit 2. responsibilities shared by government and beneficiary group
Xing Village, Guangxi [7]	Road maintenance, water conservancy	The endowment of property right and democratic governance	1. The awareness of taking responsibility 2. democratic making-decision process
Fujian [8]	Irrigation and water conservancy	Community-based natural resources management, empowerment theory	1. Accurate collective consumption unit 2. Democratic consultation

These approaches in different rural areas share similarities to solve free-rider problems. Firstly, in some normal agricultural-based villages, this problem has been mitigated due to their clan culture background. Most of the villages in China are organized internally by the intersection of kinship and in law relationships. Therefore, the establishment and maintenance of local social networks is a necessity and priority to make a living. As a common slang in rural areas said, "the countryside is all about face-saving". Taking advantage of this nature, villagers are encouraged to actively participate in public affairs

to win social confirmation. In some villages, after construction of roads and canals, the organizer will record the participation of villagers and present their names on bulletin board to show praise and honor. In this way, the positive incentives are formed organically and residents spontaneously supply public goods<sup>[5]</sup>. In addition, compared with law enforcement, the clan culture background achieves a relative low-cost supervision and efficient management. Economically speaking, the 'face society' in villages can act as a supervision and punishment mechanism, since the community is based on a network of social relations. These communities preserve their own social values. For instance, they tend to consider providing public goods as their own business. From these contexts was created the effective binding force of public voice, which not only excludes free-riders but also reduces organizational costs. Research has shown that the first two surnames family networks with ancestral temples or genealogies are easier to sponsor in public affairs and incentivize villagers to pay for public goods investment projects. In other words, the governance effect of family ties is more significant under the background of local culture<sup>[9]</sup>.

Secondly, the bottom-to-up decision making process or a democratic system is also an important contributor to alleviation of government failure and free-rider problems. In consideration of efficient management, a centralized authority does not have an unlimited ability to collect information and monitor agents, and local authorities are generally better informed. The idea is to push decision-making to the lowest possible level where peer-monitoring can take place and where agents can directly respond to local needs<sup>[10]</sup>. Simply put, local provision of public goods has a better fit with locally diverse preferences by identifying more appropriate ways to provide public goods. These flexibilities and information advantages endows decentralization similar advantages enjoyed by the market mechanism over the government<sup>[11]</sup>. The final land of public goods in villages always experience stages from the expression of demand, negotiation and decision to implementation. Different from the highly-centralized process before, the community and villagers are empowered with decision making. Followed the principle of democratic governance, the supply and construction of public goods quickly respond to villagers' needs and strengthen the openness and transparency of democratic governance rules. This will transform farmers into the main participant of public goods supply rather than the bystander<sup>[12]</sup>.

In the case of Hubei and Guangxi, the endowment of property right enables democratic consultation and cooperation, which determines the subject who take responsibility and obligation by introducing the provision of public goods outside the public system. The previous mechanism of public goods was the domination of administration. All the costs of road construction are borne by the state, resulting in farmers' lack of consciousness of responsibility in the supply of public goods and therefore they tend to take a wait-and-see attitude. Things changed after the operation mode of "democratic contract responsibility system". It has obvious symbolic significance to clarify the obligation boundary of farmers. "Road construction is not only the government's business, but also the farmers' own. By bearing part of the road construction cost, farmers are fully aware of their responsibilities. Not only that, the supply cost outside the system that needs to be shared is clear and real, with substantial cooperation content, which not only allows farmers to form the clear obligation boundary and the negation costs can also effectively internalize and promote stable implementation of public goods construction projects. This establishes a "governance buffer zone" between the country and farmers.

The state will no longer directly face scattered farmers, but 'The Road Management and Maintenance Association' organized by villagers themselves. It is fully responsible for the negotiation, mobilization, organization, fund-raising, construction, supervision and other work required for the construction of road. The Road Management and Maintenance Association has activated the endogenous resources of the village by absorbing the village elites and endowing them with a temporary official identity. In this way, farmers can be organized to complete the private provision of public goods in the "democratic responsibility system" model. After the baptism of market economy, great changes have taken place in rural societies, but the 'locality of the village community and the integrity of the community remain', which indicates that the village also retains certain governance resources to maintain the social order and public interests of the village. Village elites were recruited into the Road Management and Maintenance Association and given their official status, which can give full play to their initiative in organizing and mobilizing the masses. For example, there is a village elite returning to their hometown in the Shibanshui Group of Anletun Village, in order to win the reward and subsidy fund of road construction from government and also to facilitate his own agricultural industry. He actively participates in the Road Management Association and cooperates with the team leader and finally successfully completed the road construction of the group. Through the process of activating villagers' autonomy in the group, the interests of farmers are balanced and reshape the grass roots' governance<sup>[5]</sup>.

Lastly, the incentives of villagers not just from the demand of 'face saving', but also government. Realizing the resource misallocation caused by up-to-down decision-making process<sup>[13]</sup>, local authorities

don't bother to pass some of their burdens to private sectors and therefore consciously guide villagers to devote themselves into the construction of public utilities. To encourage and activate the enthusiasm of self-organization construction, the main contributors of public affairs are given rewards in some rural areas. The win-win situation is formed.

In order to ensure the standardized use of rewards and the quality of project, the county-level government has also provided supporting facilities. The supervision system should be implemented, which have been carried out the construction of public goods in three aspects. One is face to face supervision. During the construction process, the county departments will pass on-site meetings, training sessions, and carry out on-site technical guidance to ensure that the construction team implements according to the standard. Second, strengthen process supervision. To implement the pre-construction, mid construction and post construction publicity system. The project construction related scheme, construction progress and information shall be timely and regularly displayed on village, township bulletin boards or village level WeChat group, so that villagers can accept online and offline inspection at any time Third, building a work supervision network. Township leaders carry out regular on-site inspection and the county party committee supervises the inspection. The problems occurred in the project construction process shall be reported and supervised. Thus, through the systematic supervise to avoid village cadres in the process of decentralization, the project can be effectively completed on time and with quality guaranteed. Through the innovation of the above process, we can see the public goods supply at the grassroots level <sup>[14]</sup>.

#### **4. Limitations of self-organized communities to provide public goods**

The biggest advantage of the self-funded and self-built rural construction path is the solution of the early-stage construction of village public goods and avoidance of information failure and government failure to some extent. The ordinary villagers supported by capital also have the power to achieve continuous and gradual improvement the settlement environment and the ability to provide public goods independently, but at the same time, these approaches also have some limitations.

Firstly, to achieve self-financing and self-construction by villagers, there are some specific conditions. 'Human capital' is the first condition: on the one hand, there must be at least one person who can have a certain economic strength to enable him to focus on the organization of the village permanently, prepared with local feelings and rural work and life experience, and must also have the spirit of dedication; On the other hand, in terms of "financial resources", first, the income should be above the middle level, otherwise it is difficult to raise funds. If the village collective has a stable source of income, it is easier to promote self-financing and self-construction.

Secondly, self-financed and self-built by the villagers takes long time to achieve results. Relative to the direct provision of public goods, it is necessary to promote the cooperation of villagers. We must pay more organizational costs, such as villagers' mobilization, negotiation, self-financing and other processes. These all cost a lot of time and manpower and cannot be calculated. However, villagers also need to give consideration to family work in the process of going out to work, which cannot guarantee long-term continuous labor. Therefore, the construction period of the project is relatively long.

Last but not least, it is difficult for self-organized communities to act as an independent construction route. On the one hand, at the initial stage, financial funds are also needed as incentives to encourage villagers to be engaged in public affairs. On the other hand, China has a history of pervasive central government intervention in economic activity and this historical legacy has a profound effect. For that reason, public provision of public goods will still be the mainstream in the future, regardless of the advantages of private sectors <sup>[4]</sup>.

#### **5. Conclusion**

To conclude, the reform and opening-up has been pouring the power of market into this giant economy. Private sectors gradually act on their own initiatives. Faced with the "national paradox" of village public goods supply, some rural places have carried out innovative supply of public goods. It is based on the concept of "community empowerment", and tries to improve the efficiency and respond to villagers' demand. In Chinese countryside, from which sectors public goods are provided goes beyond an economic rationale, as there are cultural and social ethos.

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