

The U.S. and China Government Measures Against Regional Disparity

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THE AMERICAN WEST

I began to get interested in the American West several years ago, especially when China began to carry out a strategy of developing its own west. How could a backwater of the national and world economy in 1900 turn into the world economic center at the end of the twentieth century? Did market forces do everything? What kind of role did the government play in this process?

The West in this article refers to a West located beyond the Mississippi River. The American West is supposedly characterized by personal freedom and rugged individualism, but actually the federal government played an astonishingly large role in its development. As the largest single landholder in the West, the federal government has shaped it through national policy and water, forest and land management programs. In a sense, the West's success lies in the fact that "federal programs place individual choices, local interests and regional change within a framework of national requirements and expectations."¹

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In the twentieth century the federal government was omnipresent by directly managing the regional water, grass, timber, oil and recreational space resources. It was a primary customer for many of the region's leading businesses and the main driving force behind the West's massive urbanization. Federal funds have helped pave the highways, string the power lines and build the airports that tie the West to the rest of the nation. The West found itself dependent on farm supports, subsidized water, defense contracts and mass-transit grants. The federal policies on resource development and defense have transformed the West from a backwater of the national and world economies of 1900 into a central player at the end of the twentieth century.

RETREAT FROM LAISSEZ-FAIRE

The 1930s was a rather hard time for the West, where economic depression and natural disaster merged. The federal government began to move to the foreground of western life to save the bankrupt economy. With so little opportunity for profit or productive work, the flow of capital and people from the East

that had fueled western development for nearly a century slowed to a dribble. Roosevelt made the federal government a direct dispenser of relief, a creator of jobs and a source of capital through farm-support programs, business loans and emergency relief and public work jobs to attempt to stretch a safety net under the economy. The Civil Works Administration undertook projects that ranged from repairing streets and municipal buildings to flood control. The Civilian Conservation Corps (CCC) employed over 2.5 million young men nationwide between 1932 and 1942 who planted hundreds of millions of trees, built tens of thousand of dams to halt erosion and worked in hundreds of parks. Since CCC projects focused on public lands, most of its projects took place in the West rather than elsewhere.

Between 1933 and 1939 the West led all other regions in per capita payments for work relief, direct relief and loans. Beyond direct relief, the government helped to reshape the West and introduce the idea of systematic planning for regional recovery and future growth. "Depression, drought and dust undermined dependence on the marketplace as an arbiter of economic activities.... Animating the New Deal in the West

was concern for rational planning for resource use. Reports of the National Resources Planning Board, several presidential committees, various regional, state and local boards all provided guidelines designed to encourage more meaning for regional economic development."² The government's most far-reaching attempt to restructure the economy came in agriculture. Over-cultivation and over-grazing encouraged by a booming market during World War I and later forced by a declining market caused environmental disaster in the 1930s. Heavy dust storms overtook the plains. To regenerate the environment, the federal government took action to withdraw land temporarily from production and solve the problem of overgrazing. It paid millions of dollars to get farmers to turn over cultivated land to reforestation. To reduce grazing pressure on the remaining grasslands, between June 1934 and January 1935, the Drought Relief Service bought up more than 8 million steers and shot those sick and too weak to transport. The government paid the cattlemen to defer grazing on damaged pastures, to manage their water more efficiently and to stabilize their herds to help to end the glut of cattle. The Taylor Grazing Act passed in 1934, finally bringing stock-raising on public lands under federal management.³

In the 1930s the Bureau of Reclamation became the builder of multi-purpose dams designed for hydroelectric power as well as irrigation. Through the bureau, the federal government had emerged as the most powerful authority in western water management. The completion of Grand Coulee and its smaller neighboring dams provided the cheapest electricity in the U.S. and the Bonneville Power Administration,

created by Congress in 1939, put that power under public control. Cheap power eventually attracted industry, and industry allowed the region to begin to escape its dependence as an extractive economy whose raw materials went elsewhere for processing and manufacture.

By the end of the 1930s, the outlines of a new West were visible. In 1940, the presence of the federal government in the West put new resources in place for an economic take-off—new electric power, new expertise in large-scale construction, workers with new skills

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for an industrial economy and a renewed commitment to the progressive agenda of efficient resource development.

INDUSTRIALIZATION OF THE WEST

Between 1941 and 1964, the United States fought with Japan, waged war against North Korea and China and later North Vietnam. The Pacific war and its Asian follow-ups marked the final transition from the old to the new West and made the federal budget the essential driving force of western growth.⁴ The expansion of defense production and the organization of a huge military enterprise shifted the national economic balance toward the South Atlantic, the Gulf and the Pacific coast.

To meet the demands of military production during World War II, the federal government provided about 90 percent of the investment capital avail-

able in the West. The Defense Plant Corporation, an arm of the Reconstruction Finance Corporation, spent nearly U.S.\$2 billion on factories in the West. Its mills at Provo, Utah, Fontana, and California created the western steel industry and the aluminum industry of the Pacific Northwest. Federal funds created the capacity to produce 52 percent of the ships built during the war. Rapid industrialization drew on millions of laborers from rural areas and other parts of the country and speeded urbanization. From 1940 to 1943, the states with the highest rates of pop-

ulation growth were California, Oregon, Washington, Nevada, Utah and Arizona. The boom cities of the West suffered from overpriced and insufficient housing and further burdened already overcrowded transit systems. Under the Lanham Act and related programs, the federal government financed one million temporary housing units for wartime use nationwide, most of them in the West.

After World War II, many westerners began to worry about the postwar economy. Peace represented the danger of a rapid economic turndown, with a decline of defense spending. Yet the anticipated western economic crisis never fully materialized, and the problem that did occur did not last. Both in the Senate and in the bureaucracy, Westerners had achieved enough influence to maintain a federal commitment to western development. They called for a conversion of federally built

factories in the West for peacetime uses, the continued diversification of the western economy and the development of a new air and superhighway system to open up to the outside market. A gigantic demand for consumer goods took over from military demands in driving the western economy. Westerners successfully converted the wartime industrial base to other uses and expanded it as well. Wartime workers and war veterans got federally guaranteed loans through the Federal Housing Administration and the Veterans Administration and bought homes

an inadvertent consequence of federal policies devised to handle national needs within the world economic and political system.

The West gained a central role in national policy when energy became the center of world politics in the 1970s. The crisis of the Organization of Petroleum Exporting Countries and world oil price hikes spurred efforts to achieve national energy independence that depended heavily on the West. Oil leases on federal lands on Alaska's North Slope triggered a new Alaskan boom. Federal tax credits and subsidies en-

cal science utilized a combination of federal laboratories, private research-and-development contractors and universities. In the process of building U.S. scientific capacity, federal initiatives helped transform western university systems. Research grants and graduate student aid provided vital funding at a time when regional campuses were struggling to cope with the first arrivals from the baby boom. Direct federal funding and federal market for science-intensive production have helped to make western metro areas some of the best educated in the country.

To be brief, federal activities have transformed the U.S. West greatly. Thanks to these efforts, the West based on an extractive economy has given way to a West that lies at the center of national growth and the global economy.

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in basic industries in China's western region.

in the West. Migration stimulated a post-war building boom that fueled the western economy. What is more, the West did not have to eliminate its dependence on government defense spending since World War II gave way to the Cold War with the Soviet Union. International tensions and war pumped federal dollars into the West. The federal government invested more in expanding military bases, supply depots, training bases, shipyards and aircraft maintenance bases in the West.

ENERGY AND THE NEW ECONOMY

In the 1960s, a series of federal initiatives reopened U.S. society and the economy to international trade and migration. By the 1970s and 1980s, the West had assumed a new importance amidst growing global networks of people, products and ideas. This was

couraged attempts to extract oil from western Colorado shale deposits. The research for alternatives to fossil fuels looked to western wind and sunlight. Federal funds created the Solar Energy Research Institute in Colorado.

Federal contracts have been the basic support for the development and utilization of new electronics and information technologies in the newly high-tech cities of the West and supplied a key market for the "fourth wave" industries that led the nation's economic expansion after World War II. Stanford Industrial Park was the first planned effort to link science and engineering faculties of major universities to the design and manufacture of new products. Federal contracts, especially from the Department of Defense, have been a mainstay of Silicon Valley. The promotion of scientific research and applications became another federal industry. The federal subsidy of physi-

CHINA'S WEST

Today, China is facing the problem of regional disparities that the U.S. did in the past. When foreign travelers marvel at the highly modernized cities in China, like Beijing, Shanghai and Guangzhou, they do not know that the vast region of the West is less urbanized and much less open to the outside world. Some remote and border regions—Ethnic Minority Regions—have rural areas where the annual average personal income is only about U.S.\$300, many children cannot continue their schooling due to poverty and deforestation leads to soil erosion and desertification. The West lags behind the east region by a significant margin in term of economic and social development.

Historically, inland western China is far less developed than the eastern part. When the Chinese Communist

Party defeated Chinese Guomin Party and took power in mainland China in 1949, there was almost no industry in the West, while almost all the big cities and industries were concentrated in the East. After a series of nationalizations, no private businesses were left in China. At that time, except for some nations of the socialist bloc, most countries influenced by the United States and Britain did not recognize the government headed by the Chinese Communist Party. China was immersed in a hostile environment and isolated.

What is more, the U.S.-supported Guomin Party troops located on Taiwan might fight back at any time. Therefore, mainly out of concern for national security, in the 1950s and 1960s the Chinese government set up military industries in the West and moved other industries from the East to the far west as well. Some railways were built to connect the West to the East. These activities transformed the appearance of western China and gave it a comparatively complete industrial system. From the second half of the 1960s to the 1970s, due to the "Cultural Revolution," there was almost no development of the national economy. Since the 1980s, under Deng Xiaoping the Chinese government began to carry out economic reforms and to open up to the outside world. Four special economic zones were set up on China's east coast as an experiment to try out a market economy under government regulation. The special economic zones achieved success quickly and influenced areas around them. The economy of eastern China began to jump ahead, and the western part developed very slowly. The disparity became larger and larger.

Up until recently, the situation of its western region has been an obstacle

to the further rapid growth of the national economy. Therefore, the central government began to put forward the Western Region Development Program in 2000 to eliminate regional disparities. After researching the experiences of other countries, the Chinese government set up its strategy of western development. In its "Overall Plan of Western Region Development During the Tenth Five-Year Plan Period", the central government set up the main targets, including improving infrastructure with key projects in water conservation, communications, energy and telecommunications, recovering the environment at the heads of large watersheds, upgrading traditional industries, industrial restructuring, building scientific capacity, promoting urbanization, reducing rural poverty, etc.⁵ With a different system to that of the United States, China is a country where the central government has overwhelming authority and all its decisions must be strictly carried out by local government. To ensure the program's smooth implementation, the State Council established the leading group on development with Zhu Rongji (former prime minister) as the leader and Wen Jiabao (current prime minister) as the deputy leader. This group set up an office dealing with drawing up plans, formulating policies and inspecting the government projects.

DIRECT INVESTMENT

While studying these targets, we find that many will rely on government efforts, since capital is profit-oriented, and market forces cannot do everything. Huge amounts of money from central government have been flowing

to infrastructure projects, telecommunication networks and the improvement of the ecological system. The ministries of railways, communications, water resources, agriculture, forestry and the information industry, among others, continue to increase the proportion of funds invested in the major projects for the western region.

Some key projects are being implemented with financial assistance from the central government, such as turning farmland back into forests and reforestation and water control projects in Shaanxi and Gansu provinces and the Inner Mongolia and Ningxia Hui autonomous regions; the West-East Gas Pipeline Project; the West-East Power Transmission Project; the Qinghai-Tibet Railway Project; national trunk highways; and water resources development and water saving projects. The state offers subsidies to mitigate losses of local finance and expenses in forestation and grass cultivation. Subsidies are also offered for pension contributions at state-owned forestry companies and minimum living standard guarantee payments to laid-off workers. Farmers withdrawn from cultivated land get compensation in the form of grain and cash subsidies. In addition, the state provides farmers with seedling subsidies for cultivated land converted to forests or pasture or barren land covered with forests or grass.⁶ The central government increasingly invests in poverty reduction funds and sends agriculture and animal husbandry experts to destitute areas in central and western China to help increase people's income there. Meanwhile, support is given to all these areas developing science and technology, education, culture and healthcare facilities.

POLICIES TO ATTRACT PRIVATE CAPITAL

Though the central government has pumped a huge amount of money into western China, state subsidies and state-owned bank loans are far from being enough to fill capital needs over the next few years. Therefore, many policies have been drawn up to attract private capital into the region.

A greater proportion of the service and trade sectors in the western region are opened up to foreign investment, including banking, tourism, accounting, architecture and urban planning and legal services.

Investors may enjoy all preferential policies, including loans, tax breaks and land use, if they invest in basic industries, infrastructure development or resource exploitation in the western region. Foreign investment projects in infrastructure and other sectors in the western region are allowed a higher proportion of loans from domestic banks in Chinese currency for fixed-asset investment. Tax reduction or exemptions are granted to enterprises in government-sponsored sectors. New companies engaged in transport, power, water conservation, postal service, broadcasting and television in the western region are eligible for income tax reduction and exemption.

Also there are "preferential policies on land use" to encourage activities to benefit ecological systems in the western region. They allow economic entities or individuals engaged in forest and grass planting to own the wood and grass in question and hold land tenure. State-owned wastelands may be transferred without charge for forestation and grass planting aiming at ecological improvement.

The drive of the central government has produced instant results. For example, in the first half of 2001, the gross domestic product (GDP) of 12 provinces, autonomous regions and municipalities in western China increased by 8.7 percent. Investments in fixed assets soared 25 percent in the first three quarters of the year, much higher than the national average growth rate. More than one million hectares of low-yield farmland have been converted into grassland and 910,000 hectares of hills or wasteland have been planted with trees. Indiscriminate felling of trees on the upper reaches of the Yangtze and Yellow Rivers has halted. Construction of 10 key projects began in western China the year before at a combined cost of U.S.\$2.19 billion.

FINAL REMARKS

As we all know, market forces are the key motivations for economic development. However, the essence of private capital is to seek a profit. When there are high risks and low expectations for immediate profit, few owners of private capital want to invest. Underdeveloped areas with poor infrastructure and other unfavorable conditions are less attractive to private capital; to develop these areas, huge amounts of money and resources are needed. At the same time, developing these areas is of great importance to the entire national economy and social stability. Given this situation, government investment and promotion to create a more favorable environment for development are indispensable. What is more, sometimes the government can do what private capital cannot. In a sense, in the initial stage of the development, the role of the

government is more important than that of the market forces. With the improvement of the investment environment, the role of market forces will become more and more important.

While studying the cases of the U.S. West and China's Western Region, we may see that the combination of the role of market forces with the strengthening of macro-economic management is the key to reducing regional disparity. On the one hand, the market has an important role in allocating resources, deepening economic restructuring, expanding the opening to the outside world. On the other hand, the government's role of macro-economic regulation makes a priority of support to the underdeveloped regions and creates a favorable institutional and policy framework for its development. Particularly when market forces do not work well, strong government promotion has been essential in both countries. ■■

NOTES

- ¹ Carl Abbott, "The Federal Presence," *The Oxford History of the American West*, Clyde A. Milner II, Carol A. O'Connor and Martha A. Sandweiss, eds. (London: Oxford University Press, 1994).
- ² Richard Lowitt, *The New Deal and the West* (Bloomington, Indiana: Indiana University Press, 1984).
- ³ Richard White, "It's Your Misfortune and None of My Own", *A New History of the American West* (Norman, Oklahoma: University of Oklahoma Press, 1991).
- ⁴ *Ibid.*
- ⁵ "Overall Plan of Western Region Development During the Tenth Five Years Plan Period," Office of the Leading Group for Western Region Development of the State Council (China), July 2002.
- ⁶ State Council of China, "Circular of the State Council on Improving Policy Measures Concerning the Conversion of Cultivated Land Back into Forestry and Pasture" no.10 (Beijing), 11 April 2002.