

# A Summary of Studies on the Effects of Agricultural Subsidy Policies on Rural Economy

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**Abstract:** China is a big agricultural country. Focusing on capital and developing the agriculture is the foundation of making people content and the key to governing the country. In order to ensure the steady increase of farmers' income and narrow the income gap between urban and rural residents, the central government has been continuously exploring the implementation of active and effective fiscal policies for rural areas. Regarding the research on the impact of agricultural subsidy policies on rural economics, experts and scholars at home and abroad have different opinions. Through the combing and summarization of relevant research literatures at home and abroad, it provides empirical reference and directional theoretical guidance for future research on agricultural subsidies.

## 1. Introduction

Since the Party Central Committee Document No. 1 in 1982 recognized the legitimacy of contracted production to households, 21 Central Committee Documents have been issued so far, all focusing on the issue of agriculture, rural areas and farmers, highlighting the “three-agricultural issue” in the process of China’s modernization. The status of important also expresses the determination of the Party Central Committee to solve the issues of agriculture, rural areas and farmers. In the report of the 19th National Congress, the strategy of rural revitalization was first put forward and written into the Party Constitution. Through rural revitalization, the issue of agriculture, countryside and farmers has been raised to an unprecedented political level, which shows the determination to solve rural problems in the future. The Central No. 1 documents in 2018 and 2019 clearly stated the specific deployment of the implementation of the rural revitalization strategy. The rural revitalization strategy is not only the fundamental of the national economy and the people's livelihood, but also the inevitable requirement for achieving the goal of "two hundred years." Agriculture is the source of food and livelihood, and the foundation of the country's abolition, rise and fall in the chaos of the world. If agriculture is strong, then the country is strong, while agriculture is weak, it is controlled by other countries. The realization of modernization must be the modernization of rural areas and cities.

Due to the weak nature, high risk, instability and industrial foundation of agriculture as the primary industry, it is impossible to rely on the market to achieve optimal resource allocation and operation in the development process. Whether from the perspective of theoretical analysis or from the perspective of domestic and international practice, government intervention, support and protection are important prerequisites for the healthy and sustainable development of agriculture. Agricultural subsidies are important economic means for the government to implement regulation and intervention in agricultural operations. Since the founding of China, with the changes in the economic and social environment, China's financial support policies for agriculture have also been adjusted according to the phased changes in agricultural development. After years of development, the main contradictions and reform priorities in China's agricultural sector have also changed. The structural contradictions on the agricultural supply side have become the main contradictions and the focus of reform in the agricultural field. Correspondingly, the principles, ideas, systems, mechanisms and specific policies and measures of fiscal agricultural expenditures also need to be

adjusted.

At present, the problem of agricultural development has become an important part of Chinese national economic system to be solved urgently. This also has an important impact on the sustainable development of our country. In the theory of "agriculture, countryside and farmers", the research on the impact of agricultural subsidies has never been interrupted. □

## **2. Research Status of Agricultural Subsidy Policies at Home and Abroad**

### **2.1 Agricultural Subsidies Have Growth Effect on Rural Economy.**

In the reading of relevant literature at home and abroad, it is not difficult to find that many scholars believe that agricultural subsidies have a growth effect on the rural economy. Briggeman, B.C., Gray, A.W., Morehart, M.J., and Wilson, B.C.A [1] found that if the government increases the agricultural subsidies, it can significantly increase farm income, reduce the possibility of farmers leaving the farm to work, provide the average output value of farmers and reduce non-agricultural income by studying the relationship between government agricultural subsidies and farmers' income. D.D. Zhang, C.L. Chen and S. Yu [2] used the Auto-Regressive Integral Moving Average (ARIMA) model to estimate the impact of public investment on agricultural R&D, and found that public investment in agricultural R&D and promotion has made outstanding contributions to agricultural productivity. It is believed that increasing public investment in agricultural R&D and expanding and maintaining the stability of agricultural R&D policy can promote agricultural production continuously and effectively increase farmers' income. S.F. Huang [3] arranged the data of 30 provinces in China for nearly 15 years, and established a spatial panel quantile model for analysis. It is believed that fiscal expenditure on agriculture can significantly promote the increase of farmers' income even though there are differences in time and space. Z.P. Wu and Y. Hu [4] used Granger causality test and co-integration analysis as technical means to analyze the income situation of farmers across the country. The conclusions are as follows: agricultural subsidies have a positive impact on the per capita net income of farmers, but have no significant impact on wage income, and have the greatest impact on property and transfer income. Moreover, it is flexible and has a certain promoting effect on operating income. P. Zhang [5] used the error correction model to co-integrate the data of Anhui Province, and concluded that there is a long-term stable equilibrium relationship between the financial expenditure of agriculture in Anhui Province and the income of farmers, and the expenditure on financial support for agriculture significantly stimulated farmers' income. The increase in income has been achieved, and the impact of fiscal expenditure on agriculture on farmers' income has been significant. Q. Zhang and Y.Q. Zhang [6] put the research focus on the theory of new economic growth and new economic geographic growth. Used the inter-county panel data model to study and analyze the effects of multi-dimensional factors on the growth of farmers' income in Shaanxi Province, and found out that agriculture Subsidies had a significant positive promoting effect on farmers' income, which became an important factor affecting the growth of farmers' per capita net income.

### **2.2 Agricultural Subsidies Have no Growth Effect on Rural Economy.**

Of course, not all scholars believe that agricultural subsidies have a positive effect on the rural economy. Some domestic and foreign scholars believe that subsidy policies have little impact on farmers' income, and may even have the opposite effect. For example, Sharif Hossain Md [7] used Granger causality test and co-integration analysis as technical means to study the time series data of Bangladesh. It was found that agricultural subsidies had no significant effect on promoting agricultural economic growth. On the contrary, the growth of agricultural economy made the government's investment in agricultural subsidies increase continuously, which shows that the policy of financial support for agriculture has not achieved the effect of promoting farmers' income growth as expected. In the WTO-based framework, Roman Keeney [8] used the macro and micro perspectives as an entry point to study the relationship between the reform of fiscal policy on agricultural and the income of farmers in the United States. It was found that although the macro

level indicates that the financial support for agriculture had a certain role in promoting the increase of farmers' income, from the micro level, most of the increase in incomes is mostly at the expense of the loss of farmers' welfare. Z.W. He [9] also believes that in the process of implementing agricultural subsidy policy, farmers' welfare will suffer loss because of the intervention of the government, and the cost of implementing the agricultural subsidy policy is huge, and the apportionment is unreasonable, which leads to the fact that the current grain subsidy policies are inefficient. Through the study of the relationship between agricultural financial subsidies and agricultural loans and farmers' income, W. Cui, W.S. Sun, and J.P. Li [10] believed that agricultural financial subsidies have little effect on improving farmers' income levels. When Z.L. Sun, and H.F. Xiao [11] studied whether the local agricultural financial subsidies in China have a significant effect on the increase of farmers' income. Through the establishment of a provincial panel data model, it is concluded that the impact of local policies on increasing farmers' income is limited. The reason is that the inefficient use of funds limits the role of the policy.

### **3. Problems and Suggestions on Agricultural Subsidy Policy in China**

In recent years, China has been continuously improving the agricultural subsidy policy, but this still cannot avoid the existence of many problems, such as low utilization rate of funds, unreasonable allocation of funds, imperfect mechanisms and so on. In this regard, many scholars have also put forward their own views and opinions. Z.B. Zheng [12] believes that the WTO provided us with new opportunities and challenges in the process of implementing agricultural subsidies. In the process of reforming and innovating agricultural subsidy policies, we should make full use of the “green box” and “yellow box” policies. Appropriate adjustment and improvement of the subsidy method and subsidy structure will enable the overall effectiveness of the subsidy policy to be fully utilized and contribute to solving the problems of agriculture, countryside and farmers. L.Q. Zhu, and Y.L. Weng [13] believe that in order to give full play to the effectiveness of effective funds, it is necessary to strengthen the management and use of funds for agricultural subsidies projects, such as increasing the efficiency of supporting the use of rural production expenditures and other expenses, so as to achieve the purpose of increasing farmers' income. D.R. Zhong and C.Y. Liu [14] recognized the conclusion that the agricultural subsidy policy strengthens the rural economy. It is believed that only the implementation of the agricultural subsidy policy is the fundamental solution to the problem of increasing farmers' income. This requires not only the government to increase the scale of investment, but also to continuously adjust and optimize the structure of agricultural expenditures necessarily. Wang Haiyang, H.Y. Wang, Q.S. Meng, S. Yan, and K. Tang [15], based on the research on agricultural subsidies data since the reform and opening up, found that it was necessary to increase the proportion of three expenditures on agricultural science and technology, and to reduce the proportion of expenditures on supporting agriculture appropriately. C.L. Xu, Y.J. Zhong, and F. Xiao [16] believe that the increase in farmers' income is related to the level of agricultural science and technology. Only by increasing the investment of government in scientific research, reducing expenditures on agricultural, and adjusting the structure of financial expenditure related to agriculture can we achieve the goal of increasing farmers' income.

It can be seen that by increasing the amount of subsidies, strengthening the direct subsidy method, improving the subsidy guarantee system, and implementing different subsidy policies according to the actual conditions of different regions, we will implement a rational agricultural policy and promote China's agricultural subsidy policy to be more reasonable, effective and perfect to protect the fundamental interests of Chinese farmers.

### **4. Conclusion**

In summary, although our government pays more and more attention to subsidizing agriculture, and the agricultural subsidy policy has been improved day by day, according to the current situation, there are still many problems in our agricultural subsidy policy. The agricultural subsidy policy is

not only a macro policy implemented by the state, but also an indispensable means of protecting and supporting agricultural development. The implementation of this policy can effectively alleviate the food crisis, low income of farmers, and stagnant agricultural development, so as to achieve the goal of achieving stable development of domestic agriculture in our country. Therefore, on the basis of learning from foreign experience, it is necessary for domestic scholars to study the effect of agricultural subsidy policy implementation based on the actual situation of the transformation of domestic agriculture from traditional agriculture to modern agriculture. And it can provide valuable suggestions for the continuous development and improvement of agricultural subsidy policy.

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