The Journal of Development Studies

Publication details, including instructions for authors and subscription information:
http://www.tandfonline.com/loi/fjds20

Economic reform in China
Charles Bettelheim
École des Hautes Études en Sciences Sociales, Paris
Published online: 23 Nov 2007.


To link to this article: http://dx.doi.org/10.1080/00220388808422081

PLEASE SCROLL DOWN FOR ARTICLE

Taylor & Francis makes every effort to ensure the accuracy of all the information (the “Content”) contained in the publications on our platform. However, Taylor & Francis, our agents, and our licensors make no representations or warranties whatsoever as to the accuracy, completeness, or suitability for any purpose of the Content. Any opinions and views expressed in this publication are the opinions and views of the authors, and are not the views of or endorsed by Taylor & Francis. The accuracy of the Content should not be relied upon and should be independently verified with primary sources of information. Taylor and Francis shall not be liable for any losses, actions, claims, proceedings, demands, costs, expenses, damages, and other liabilities whatsoever or howsoever caused arising directly or indirectly in connection with, in relation to or arising out of the use of the Content.
Economic Reform in China*

Charles Bettelheim**

Since 1978, China has undergone a series of radical economic reforms which officially constitute a logical step in the 'initial stage of socialism', and imply a transition from central planning to a mixed economy. The author argues that in fact the transition taking place is from a soviet type of state capitalism towards private capitalism. The rural reforms involve the restoration of pre-revolutionary production relations, while the urban reforms introduce new capitalists drawn from the ranks of the state administration, to the detriment of the poor and unskilled. There has been a retreat from Marxism as the official ideology, and the legitimacy of the regime is now based on modernisation as a national goal.

In December 1978, the Eleventh Central Committee of the Communist Party of China put the reform of the economy at the head of the agenda for its third plenum and the first official documents on the reforms were issued by the Council of State in December 1979. In the event, the agrarian reform was the first to get under way; in some cases in advance of the official documents. Nine years later, the Chinese economy is fundamentally different from what it was when Mao, the founder of the CPC, died.

The changes (bouleversements) that the economy and society of China have experienced go far beyond simple 'adjustments'. Indeed they can be said to constitute a 'new revolution' (nouvelle révolution). Thus we must review the evolution of the situation before 1978 in order to ascertain why the 'Maoist model' of development was apparently abandoned so suddenly.

ECONOMIC DEVELOPMENT IN 'MAOIST' CHINA

For those who have always held a critical view of Maoist China, the reason for abandoning the previous 'model' is simple: it was 'inefficient'. The official figures showed that China could not continue to follow the same road: so at all costs it had to take a 'new direction'.

Reality is not so simple. The 'model of development' which took shape under Mao's leadership was certainly not 'perfect' (any real social system has contradictions and imperfections) but the economic and social results obtained were far from negligible. However, certain aspects were less and less

---

*Translator's note: Technical accuracy has been given precedence over literary style in this translation, and where the terms are coined by Bettelheim himself the French version is also given. Proper names and bibliographical references have been left as in the original manuscript – E.V.K.F.

compatible with the desire for rapid 'modernisation' which inspired the Chinese leadership of the post-Maoist era, nor were they compatible with the aspirations of significant strata of the Chinese people.

I think it is appropriate to consider the years 1956–78 as covering the essence of the Maoist period. In effect, 1949–55 corresponds to the establishment of state power by the CPC and the construction of the 'new democracy' (démocratie nouvelle), but this did not affect individual peasant farms and the process of industrial transformation had not yet begun. From 1955–56 onwards things were quite different. As far as 1978 is concerned, two years after the death of Mao, the structural and political changes were still of a relatively secondary character.

The overall results obtained from 25 years of 'Maoism' are considerable, above all, if we allow for the 'black years' (années noires) after the 'great leap forward' followed by the onset of the 'cultural revolution'.

The statistics on the broad aggregates over long periods are still in dispute, and should not be considered as anything more than orders of magnitude. In the discussion that follows I will use the recent official economic indicators, which are generally accepted by foreign analysts, albeit with some reservations. These figures suggest an overall rate of growth of national income between 1952 and 1978 (based on sectoral output) of 4.4 per cent at 1980 prices. This is not a very high rate of growth, but it is respectable (honourable) if the events of the period are taken into account, and income per head did rise by 2.5 per cent per annum. However, these positive results should be qualified by the fact that agricultural output was growing at only 2.0 per cent per head.

This growth pattern did not contain an expansion of industrial employment sufficient to permit a reduction of rural over-population. Thus, between 1957 and 1978, although the proportion of the workforce in agriculture diminished from 81.2 per cent to 73.8 per cent and that in industry rose from 7.6 per cent to 15.5 per cent; the ratio of average labour productivity in agriculture compared to that for production as a whole fell from 0.7 to 0.5 because annual productivity growth in agriculture was only 0.2 per cent while that for industry and construction was 2.8 per cent.

As a whole, this 'Maoist period' saw an expansion of 25 points in the share of industry in national product over the two decades, which rose from 16.8 per cent to 41.7 per cent. As K.C. Yeh points out, it took Great Britain 40 years (from 1801 to 1841) to increase its industrial share in national product by 11 points, and 45 years for Japan (1878–82 to 1923–27) to raise this indicator by 22 points. However, the negative aspects were:

(a) the poor progress of agricultural productivity due to a serious rural overpopulation and a poor utilisation of this workforce which slowed down industrial development potential.
(b) a reduction of the share of services in the national product, which fell from 24.5 per cent to 20.4 per cent during the period under consideration, contrary to the experience of other developing countries.
(c) the growth not only of rural overpopulation but also of urban unemployment, which has not been properly estimated; by 1978 it reached approximately ten millions, out of a total urban population of 172 million.
(d) the reduction in the marginal efficiency of investment, which fell from 0.75 in 1962–65 to 0.25 in 1970–75, indicating a growing underutilisation of capital due to the duplication of production capacity arising from the state of transport infrastructure; this underutilisation is also linked to insufficient production of energy and raw materials, as well as the frequent breakdowns of overworked and poorly maintained plant.

These factors, among others, contributed to the 'Maoist model' of development being abandoned in favour of far-reaching economic reforms.

THE DETERMINANT FACTORS IN THE ‘NEW COURSE’ OF ECONOMIC POLICY

The factors which directly determined the abandonment of the 'Maoist model', inspired by Soviet model established in the 1930s, are many. It would be a gross oversimplification to search for a single cause, or even to suggest that one factor was more decisive than others. It is not even possible to establish a hierarchy of the factors which have influenced the adoption of the 'new economic course'; in effect, this 'adoption' was a continuous process during which the reforms and economic measures interacted, so that each measure or reform was subject to the influence of factors different from those which influenced the measures adopted earlier on. Among these factors there are certain consequences of the 'New Course' itself, which frequently required further reform measures.

We may list briefly the principal factors which contributed directly to the abandonment of the 'Maoist model':

(a) factors connected to agricultural structures and policies, among which figure the discontent of an important part of the peasantry as to the system of popular communes and the imperative planning (planification impérative) system which obliged them to produce crops they considered to be unprofitable and which was not conducive to rapid agricultural development, reducing investment where it could have done most good (especially if it had received higher state purchasing prices) and discouraging local initiatives.

(b) the neglect of light industry, transport, energy and services as against heavy industry, which contributed to the tendency for the standard of living of workers and peasants to stagnate, above all, from 1966 onwards.

(c) the excess of effective demand over aggregate supply, due to an extremely centralised and inefficient planning system, to a very high rate of investment, and to a system of administered prices which did not reflect either the costs of production or the relation between supply and demand. These problems led to widespread scarcity and the imposition of rationing, as well as the growth of a heavy bureaucratic apparatus and a deterioration in the efficiency of resource use.

(d) the administration of 'detailed imperative planning' which grew more unrealistic to the extent that production became more complex and diversified, and involved an increasing waste of resources and the
appearance of bottlenecks preventing the development of the economic sectors necessary for more rapid growth of production as a whole and a greater satisfaction of the basic needs of the population.\textsuperscript{10}

(e) a system of state enterprise administration which, faced by the demands of complex technologies and the need for diversification, did not leave initiatives to the managers nor itself promote the absorption of new techniques and the modernisation of equipment, production systems and products.

These defects in the system, established from 1956 onwards, were aggravated between 1966 and 1975 by heightened political struggle and personal rivalries within enterprises and government departments during the Cultural Revolution. The statistical system broke down\textsuperscript{11} and the training of engineers and specialists was retarded, as was the level of technical knowledge.\textsuperscript{12}

These appear to be the principal factors which, under the particular circumstances, caused China to abandon the model of organisation and development, and the forms of management dating from 1956 and essentially maintained until 1975.

None the less, beyond the specific conditions which contributed to the 1978 reforms in China, we must ask if at some point the weaknesses of imperative central planning (accentuated by the increasing technical complexity of the economy) make drastic reform necessary in 'Soviet-type planning' in general. On this question, it seems to me that the answer must be in the affirmative.\textsuperscript{13a}

I believe that Soviet-type central planning (in reality we should call it 'Stalinist') permits during one or two decades an exceptionally high rate of growth but creates at the same time tensions which require the application of anti-democratic and repressive measures. This type of planning generates both fundamental disequilibria and an illusion of control over the economy. These problems can lead to a social and economic crisis of the sort experienced by the Soviet economy in the 1970s. In order to overcome this crisis, and the consequent breakdown of the economic system and social relations, the abandonment of detailed central planning becomes necessary. As to the nature of the consequent reforms, in order to be effective they should in my opinion combine long-term planning, implemented mainly through 'economic levers' (leviers économiques), with the use of market mechanisms.

In the event, the tentative reforms of the 1950s in the USSR and Eastern Europe responded to the decline of growth rates and to the violent explosions of popular discontent: in 1953 in the Soviet sector of Berlin, and in 1956 in Poland and Hungary. Except in Hungary, these reforms were halted for various reasons but the 'reform movement' has continued, developing underground at the theoretical level and contributing to partial reforms in various countries. The Polish economist, W. Brus, has thus been able to distinguish three 'waves' of reform in Eastern Europe\textsuperscript{13b} which the conservative opposition and, above all, the Soviet Union, has been able to halt – by military pressure if necessary. Since the arrival of M.S. Gorbatchev we have seen a 'fourth wave' beginning in the USSR itself, even more radical than its predecessors and with the additional merit of stressing democratisation.
and ‘transparency’ (glasnost). Only the future will tell where this wave will go or what its effects will be.

These remarks should indicate why in China, before initiating the reform process officially in 1978, proposals to reform the existing system had already been discussed, although with considerable prudence, because the CPC is even less tolerant in ideological matters than the CPSU. Some of these propositions emerged as practical decisions. For example, a series of measures adopted by the Council of State in 1957 increased the powers of state enterprise managers, transferring the great majority of light industrial enterprises to provincial governments and limiting, in principle, to 12 or 14 the number of obligatory targets assigned to these enterprises. The articles published in 1977 by Xue Muqiao contain a description of certain partial reforms already adopted and of some aspects of the debate that had taken place in China on this question.14

In order to understand the implications of the reform process initiated officially in 1978, we should recall the social and economic conditions which engendered it, and the socio-economic system upon which it was to act.

THE SOCIAL AND POLITICAL CONDITIONS OF THE REFORM PROCESS

Since 1977 in certain provinces, especially in the interior such as Cangsu and Sichuan,15 a strong peasant movement was pressing for decollectivisation. This base movement was to be one of the first detonators of the transformation of the relations of production in the countryside.

On the purely political level and at the top of the CPC, the turn towards reform was taken at the Third Plenum of the Eleventh Central Committee, which signalled the victory of the Deng Xiaoping line over that of Hua Kuofeng, then prime minister and successor to Mao in the leadership of the CPC. The victory of Deng, who had been identified for a long time with radical reforms,16 had been foreshadowed by his readmission to the Central Committee, the recovery of his functions as deputy prime minister and vice-president of the Party, and by the return in force of his supporters to senior CPC positions in July 1977. It is linked to sympathy with, and loyalty to, Deng, as much as support for his economic ideas, on the part of numerous provincial authorities, and a large part of the military authorities, as well as the population as a whole. Deng thus had the political means which permitted him, with a programme essentially made up of slogans although based on economic and political analysis, to steadily displace Hua, who was considered as the spokesman for a ‘conservative’ and ‘neo-Maoist’ tendency favourable to the maintenance of a highly centralised system.

The fall of Hua became inevitable in February 1980 after the eviction of his allies from the Politburo, In September, he resigned as prime minister and was replaced by Zhao Ziyang. His defeat was complete by June 1981, when he lost his post as president of the Party and was replaced by Hu Yaobang. In the autumn of 1982 he was dropped from the Politburo itself, and the victory of Deng was assured. None the less, since December 1978 Hua had ceased to be the supreme leader of the Party, so that 1979 can be said to mark the beginning of the ‘age of Deng’ (ère denguiste).
Before turning to the main aspects of the Deng political line and its implementation, a question must be addressed: was this line directed towards the reform of the existing socio-economic system, or was it to substitute another? The answer to this question is necessarily open and partly hypothetical. My own answer is derived from my judgement today as to what the ‘Maoist system’ was, as to what Deng seems to want to do and what has been done under his leadership. These latter two have not always been identical, because the requirements of a contradictory socio-economic situation have obliged Deng to take measures against his wishes. The resultant is the effective political line followed since 1978.17

WHAT ECONOMIC SYSTEM WAS TO BE REFORMED (THAT IS, MODERNISED) AND HOW IS THAT SYSTEM CHANGING?

Having studied the Soviet system,18 which is very similar to the Chinese, I believe I can answer the first question in the sense that the system established in the USSR during the 1930s, and fundamentally unchanged since, constitutes a particular form of capitalism. State capitalism (capitalism d'état) directed by a single party participates directly in all essential economic decisions. It might even be defined as ‘party capitalism’ (capitalisme de parti) where the ruling class forms a ‘party bourgeoisie’ (bourgeoisie de parti).19 In the expression ‘party capitalism’ the essential term from the economic point of view is that of capitalism. I employ it because the system is characterised, like all capitalist forms of production, by a double separation: the separation between production units which means that output takes the form of commodities with a price; and the separation of the producers from their means of production which means they are obliged to sell their labour power for a wage determined by those who control the means of production. We can find this double characteristic in the Chinese economic system. We can also find, at least until the reforms initiated by Deng Xiaoping, the sole party at the head of the state.

I believed for a long time that China was ahead of the Soviet Union, having advanced further along the socialist road (voie socialiste). The Cultural Revolution and its aftermath, followed by the policy of the CPC since 1978, have forced me to abandon this position as no longer realistic and to insist upon the effective social relations (rapports sociaux effectifs) disguised by ideological discourse.

Recent events and publications on contemporary China and on the 1949–78 period,20 as well as my own direct knowledge of the country and that of colleagues, allow me to state that:

(a) after 1955–57, China entered a state capitalist road (in the form of party capitalism) after the ‘collectivisation’ of agriculture and the elimination of private capital and individual enterprises.
(b) after the 1978 plenum, as a result of the peasant movement and subsequent struggles, China entered an unprecedented ‘new road’ following decollectivisation and a drastic reduction in the economic role of party and state. These are the main changes we must study.
In brief, it appears to me that these changes could develop in either of two directions. One is that of a ‘mixed capitalist system’ (*système capitaliste mixte*), also without precedent, in which the state, the party, private capitalists and various kinds of enterprises all play a certain role although their relative importance cannot be foreseen, as it depends upon the evolution of a trial of strength in the economic, social and political fields. The other is that of a ‘predominantly private capitalist system’ (*système capitaliste à dominante privée*) but with a substantial role for the state apparatus, and a less certain role for the party, which may even be displaced by a multiparty system under the pressure of social tensions. ¹²¹

The Deng political line appears to be engaged in the former of the two possibilities outlined above, which permits the single party to play a considerable role, albeit more limited than before. This role will lead sooner or later to open conflicts between the social classes that do not attain expression through the party, and who will struggle for the development of democratic forms. Of course only history – with all its uncertainties – will allow us to know where China is going at present. For the moment we shall examine the major changes since the beginning of the ‘Deng period’ and their consequences.

‘DECOLLECTIVISATION’ AND THE TRANSFORMATION OF THE RELATIONS OF PRODUCTION AND DISTRIBUTION IN THE COUNTRYSIDE

What might be called for convenience ‘de-Maoisation’ (*demaoisation*) did not start immediately after the death of Mao in September 1976, but rather during 1977 in the form of a ‘decollectivisation’ arising from the spontaneous movement by part of the peasantry. The official ‘de-Maoisation’ (which was never called this, of course), started in December 1978 after the Third Plenum of the Eleventh Central Committee. In the opinion of M.C. Bergère, this plenum ‘marks as fundamental a turning point in the history of the People’s Republic of China as the 20th Congress in that of the Soviet Union’. ²²² This view appears correct to me.

Personally, I believe that at the economic and social levels, the Chinese reforms are much more radical than those which the USSR attempted in 1956 because they affect the relations of production and distribution themselves. However, the ‘perestroika’ of Gorbachev, if it is completed, could open a much wider perspective than that presaged by the Chinese reforms because the proposed democratisation and ‘glasnost’ are potentially capable of overthrowing the structure of political relations which the USSR has known for seventy years – and which to a great extent reproduce the absolutist structures of Old Russia.

In any case, the decisions taken by the plenum in 1978 ‘officialised’ what the peasant movement had initiated; they opened the door and became part of a much larger ‘strategic turn’, ²³ made up of the ‘four modernisations’ in agriculture, industry, defence and science. The watchword of modernisation had already been proclaimed in 1964 and again in 1975 by Zhou Enlai. It had no practical consequences, first, because of the Cultural Revolution, and second, because the death of Zhou himself had rapidly placed economic decision-making in the hands of Hua. Only in 1978, when he in his turn went,
did a new period begin.

As far as agriculture is concerned, the turn rapidly led to the dissolution of the 'popular communes'. In almost all cases, they were replaced by private agricultural units (exploitations agricoles privées). The land is still formally 'social property' but it is rented for a (renewable) period to peasant households. This is what might be called a 'silent revolution', which arose from the insatisfaction of a large part of the peasantry with collective forms of farming because of the consequent bureaucratisation and distribution of income that did not correspond to individual effort.

During a visit to China in 1983, H. Marchisio noted the number of peasants who criticised the collective production system because the efforts of the more active workers were cancelled by the laziness of others, which reduced the growth of output and incomes: 'whether one works a lot or a little makes no difference, and whether one works well or badly, its the same thing'.

By the end of 1984, it was clear that a new rural China had been born. The decollectivisation movement extended to the whole country, although organisation of production in brigades did survive in some places. Peasant families arranged for their land to be assigned to them through contracts signed with the sub-units of the communes, normally the production brigade itself. Usually these contracts were for three to five years, but since 1984 they have been extended to 15 years and sometimes even to 30. Almost everywhere, the instruments of production are sold or leased to peasant families.

At the end of 1985, there was another important decision: those peasant families who were obliged to deliver a minimum quantity of cereals, meat, fish, fruit or vegetables at prices below those of the market, saw such contracts eliminated. Henceforth, the peasants were only subject to various local taxes and the payment for supplies purchased from the state. That part of production that they do not consume themselves is freely sold either at variable prices according to the market situation or to the state at fixed prices. Private agricultural enterprise is thus highly profitable, although not landownership as such. Under certain conditions, a peasant who abandons farming can nowadays 'transfer' to someone else his rights to the land.

Private cultivation (exploitation privée) based upon the 'household responsibility system' (HRS) became widespread by 1982. In its advanced and most widespread form (baogan daohu), the agricultural cultivator is in the position of being a contractor (fermier) where the proprietor is the state itself or a sub-unit of the former communes, which are no longer centres of political power. In 1982 the former local centres of government (xiang) were reinstated, and were almost all operating by 1984.

These fundamental transformations in the Chinese countryside since 1978 have had considerable consequences both agriculture itself and for rural off-farm activities.

Since 1978, the gross value of agricultural production (in the strict sense of the word) has grown by around six per cent a year, and that for stock raising by nine per cent. This growth is due both to greater volumes of production and to the more rapid growth of those crops with the most advantageous prices. Also the output of cereals has risen at about four per cent per annum, edible oils by 14 per cent, and meat by nine per cent. These results have been
obtained by a better use of resources than under the previous objectives set for the communes; more motivation on the part of peasants on privatisation and higher prices for their marketed output. However, these new prices still do not make agricultural labour as remunerative as other activities; so an agricultural household must obtain authorisation in order to move to other activities, and various administrative measures exist to limit the rural exodus. Nevertheless, the higher prices paid by the state have not been entirely passed on to consumer prices in government stores, which required subsidies of some 37 billion yuan in 1984 (about a quarter of central government expenditure) although, since then, higher consumer prices have reduced this burden.

A significant improvement in the economic situation of the peasantry in terms of adequate income from cultivation, without state subsidies or prejudice to urban consumption, would have to be based both on larger and better-equipped peasant farms, and on more non-agricultural employment because there is practically no new land to be cultivated, at least without enormous investment. Present policies favour off-farm employment in the countryside itself, in the market-towns and villages, because the larger cities still have large numbers of unemployed.

At the same time as agriculture has gone through these transformations, new workshops and small factories have sprung up in the countryside. These initiatives are usually due to production brigades or collectives of workers, but they can equally be set up by rural families specialising (with or without authorisation) in non-agricultural activities. Sometimes the workshops placed under the direction of a brigade are in fact managed by a rural family. These changes are the source of additional income which can be reinvested, contributing to an ‘industrial network web’ (tissu industriel) and essentially creating private rural capitalism: in effect, certain families have rapidly returned to the use of wage labour.

The new constitution has made these social and economic transformations official. A resolution of the Central Committee in October 1984 defined the urban and rural ‘individual enterprises’ as an ‘indispensable complement to the socialist economy’. Theoretically they could have, at most, eight salaried employees; but, in fact, this limit was generally exceeded, and was subsequently abolished. Since 1978 these ‘new’ social relations (which are really those which obtained before the transformations of the 1950s and 1960s) have extended themselves throughout the Chinese countryside, relations which are essentially mercantile or capitalist, and which permit the growth of private savings and investment.

By the end of 1984, 25 million rural families (that is, 14 per cent of the total), were engaged exclusively in non-agricultural activities. To these should be added those which carry on farming jointly with other activities. The richer families among them form a rural capitalist class. A large part of their agricultural and artisan production is sold in local urban markets.

The productivity gains in agriculture and higher prices have raised average peasant incomes enormously, and have reversed the notable tendency to stagnation, especially in marketed output. They have also removed the major obstacle to modernisation and industrialisation represented by the reduced agricultural marketed surplus available in the early 1980s.
Recent data do not permit a detailed analysis of industrial and agricultural production, although some broad indicators are significant.

OVERVIEW OF THE RURAL AND AGRICULTURAL SITUATION IN THE SECOND HALF OF THE 1980s

The aggregate figures for industrial output by forms of property in 1985 are as follows: state enterprises 40.6 per cent; collectives 36.7 per cent; other forms 22.7 per cent. The value of industrial production was thus less than half the total by 1985, while the collective enterprises run by local authorities accounted for a third, and other forms (both individual and capitalist) of property almost a quarter. It should be noted, however, that the real state share is underestimated because of the pricing system which depresses state prices, while the 'collective' sector is, in fact, mostly co-operatives, the rapid growth of which are a sign of vitality as they are established on a voluntary basis. Although the official figures indicate a much lower weight for the private sector (some two per cent of industry and 16 per cent of retail commerce in 1986) the central government does seem to be worried by this phenomenon, perhaps because of the possibility of there emerging an economic (and even political) power independent of itself. Non-state forms of industrial production are developing more rapidly in rural areas than in the towns, although even here their role is far from negligible, causing a rapid rise in off-farm incomes.

In his report to the Twelfth Party Congress in October 1987, the interim secretary-general Zhao Ziyang stated that the average incomes of the rural population had almost doubled in nine years. This growth is due to both higher peasant earnings and the impulse of off-farm incomes, as agriculture is producing more with less labour. This impulse will continue in the years to come, and stands out in the report by Zhao Ziyang, who insists upon the importance of the development of a market economy (which he evidently refuses to identify with capitalist development) and of non-state forms of property.

The contribution of artisan activities, services and rural industries in market towns and villages should be such that by the year 2000, out of a total workforce of 850 million, some 450 millions would still be rural, but only a third of these would be farmers. Some 20 per cent would be employed in subsidiary activities (storage, forestry, fisheries, etc.) and 40 per cent in industry, construction, commerce and public services (only ten per cent in the towns themselves). If these forecasts are realised, the market towns will number some 60,000 with a population of 300 millions, compared to some 2,700 with a population of 60 million in 1982. This represents an enormous transformation, and, although recent developments indicate that it is not impossible, it certainly faces enormous obstacles. Not the least of these is the requirement for a ten per cent annual growth rate in off-farm activities.
THE ECONOMIC CONTRADICTIONS IN THE CURRENT TRANSITION
REPRESENTED BY THE 'DECOLLECTIVISATION' AND 'PRIVATISATION' OF
MANY ACTIVITIES

The process initiated in 1978 also contains both positive and negative elements, among which we can mention the following ones.

The growth of average incomes is positive, as is the increase in labour productivity, the marked improvement in resource use, the spectacular expansion in marketed output and the rise in savings. The rise in savings is particularly significant in the rural sector, although it is not entirely a positive phenomenon because it is partly in the form of 'forced' saving through the uncontrolled expansion of bank credit and the effect on the poor of price liberalisation.

In order to mobilise this rural saving and direct it towards investments conducive to rapid and balanced economic growth, the role of the Agricultural Bank of China and the Rural Credit Cooperatives has been restored and they have been given greater freedom to fix rates of interest on deposits and loans, taking into consideration local conditions. At the same time, the authorities have allowed private credit groups to emerge, and even private moneylenders.

These measures have not prevented part of the rural savings from draining off to the towns in order to finance hotels in Peking, for example, even though the profits from rural investment are considerable. This is particularly true of small enterprises whose profits are insufficient and must depend upon external financial resources to expand.

If this is the case for small on-agricultural enterprises, it applies even more for the financing of investments urgently needed for the modernisation of farms, improved storage facilities and rural infrastructure which are short of funds, despite increased rural saving. This problem is all the more serious because the funds available from the central government, either directly from the budget or indirectly through the banks, have declined in recent years as a result of both decentralisation itself and the government's own concentration on industry, energy and transport.

In his report to the Thirteenth Congress, Zha Ziyang evoked this problem when stating:

In parallel with the deepening of the rural reforms, the State, the collectives and individuals should invest more in agriculture; local authorities should devote a greater proportion of their financial resources to multiply rural infrastructure (especially hydraulic projects), combat floods, droughts and other natural disasters, and improve the basic conditions of agricultural production. Land management will be strengthened and the reduction in the cultivated area will be halted . . . We must increase the production and distribution of chemical fertilizers, plastic sacks, insecticides, herbicides, diesel, agricultural machinery, etc. in order to reinforce the material underpinning of agricultural production.

The recent growth in agricultural production (which allowed an aggregate output growth of 12 per cent in 1985, and high rates in the subsequent two
years) and the targets fixed for the coming years to meet nutrition and employment targets in relation to demographic growth, require an extremely high rate of accumulation. This had already reached 30 per cent of national income in the early 1980s. It also requires a more rational allocation of investments and an effort to improve the quality of goods exchanged with the peasantry. These conditions have not been met, which has led to an imbalance between supply and demand, and an 'overheating' of the economy.

This overheating is translated into a serious inflationary pressure (which is not properly reflected in the official figures) and intersectoral disequilibria which required a reduction in the growth rate. From 12.3 per cent in 1985, according to government forecasts it should have been reduced sharply in 1986 and 1987, but this was not the case. In the first five months of 1987, industrial production rose by 14.6 per cent even though its annual target was 7.5 per cent, leading to even more bottlenecks. The failure to reduce this overheating demonstrates the weakness of the instruments that the State controls in order to ensure the macroeconomic regulation it desires.

SOCIAL CONTRADICTIONS IN THE COUNTRYSIDE

Even though decollectivisation (or rather, the abandoning of centralised agricultural planning) and farm price liberalisation have had a positive effect on aggregate agricultural output and marketing, supporting a high national growth rate, this has not been of benefit to the entire population, due to the emergence of social inequalities. Differentiation has increased between families in the same village. The richer families generally have the best land and more and better means of production than poor families. These inequalities have also grown between villages (especially favouring those near the towns) and between regions. These effects are generally cumulative, so that those families who were initially better off grew richer – they manage their farms better and are not so subject to natural disaster – and the others get poorer, or at best experience slower income growth.

We do not have very much information on rural social differentiation, only the results of some local surveys. In the prefecture of Chuxian (Anhui province) which was one of the first to adopt the 'household responsibility system' we know that the general increase in income was accompanied by greater inequality. As early as 1981, 1.2 per cent of families had attained an income per head of 500 yuan, while another five per cent earned less than 60 yuan, a considerably greater spread than before decollectivisation. Chuxian is considered to be representative of the underdeveloped third of the Chinese countryside.

The development of property (from tractors to shares in enterprises) has favoured the accumulation of private wealth. In March 1983, W. Hinton met a peasant in the district of Fenyang (Anhui) who owned two tractors which earned him 1,000 yuan a month each, which allowed him to pay off their cost in six months. Another peasant had become a merchant, earning 20,000 yuan a year, and although he paid three-quarters of his income in tax, the remainder was 14 times that of the average income in the district. Hinton adds this comment: 'He could reinvest this money in his own business, buy shares in
new industrial enterprises under construction... and reinvest his new income.
... Commercial freedom threatens to create merchant princes once more'.

This type of wealth creation is encouraged by the new political line, the
promoters of which affirm that this will lead to a general improvement and
that classes based on private property cannot emerge. This is incorrect, of
course, because to be the owner of tractors, to hold shares in enterprises based
on wage labour, or to manage a commercial business with waged employees, is
obviously to be a private capitalist. This is what K. Lieberthal, among others,
argues when he considers that the newly rich classes in many rural (and urban)
activities 'will inevitably generate pressures to increase their social and
political power'. The silence of the CPC on this point indicates an official
refusal to recognise the reality of this tendency, which in fact has the effect of
reinforcing it. Lieberthal indicates that the potential activities of these rich
peasants extend from local charity to the financing of higher studies for their
children. According to certain leaders of the CPC, these activities recall the
role of the enlightened gentry (gentry éclairée) before 1949. This comparison,
which seems to idealise the true situation, is consistent with certain remarks
made by the vice-premier Wan Li who evokes, in relation to the better-off
rural classes, the 'sound traditions... of the representatives of the advanced
forces of production in the countryside'.

It is essential to recall that these new rich are not necessarily the most
capable or hardworking peasants, but rather are often former cadres of the
brigades and production teams, young educated men, demobilised soldiers or
skilled workers from industry and commerce. A 1984 survey in one county of
Shanxi revealed that only five per cent of the new rural capitalist class (the
survey talks of 'prosperous households') are 'peasants with experience in
management', and all the indications are that this is a fundamental trend.

The place of the lower and middle cadres in the formation of a well-to-do
stratum and a new capitalist class is a phenomenon also to be found (although
less markedly) in the towns. It merits attention because it strengthens the close
links between the administration, the party apparatus and the new private
bourgeoisie; links which in turn create corruption. Indeed, it would appear
that the new private bourgeoisie has entered business without habits of
enterprise and profitability (calcul économique) but rather with routine
administrative ones. Thus a general characteristic of this new social system is
that it has been built up in a context of existing 'clientalism' modified to the
new environment. What we are seeing is a process which J. Oi has called
'commercialisation of the rural cadres'.

According to M.C. Bergere, there existed in 1985 some 25 million rich rural
households, representing 13 per cent of all rural households, and receiving
some 3,000–5,000 yuan a year, compared to an average of 1,000–1,500. At the
same time:

the gap is deepening between the income of those peasants remaining on
the land and those employed in the new artisanal or industrial
enterprises. In the region of Wuxi (Jiangxi)... the difference between
the income of the former and the earnings of the latter is so great that the
local authorities decided, in September 1985, to subsidise cereal farmers
to prevent them from leaving the countryside.\textsuperscript{50}

In 1987, the Chinese authorities recognised that 100 million people (mostly rural) were suffering from extreme poverty.\textsuperscript{51} The help extended to poor peasants is feeble, so they tend to abandon agriculture altogether. In order to avoid a massive rural exodus, the government has promoted village industry and rural artisan activities, but this has not prevented a large number of peasants from leaving their villages: they crowd the main streets of large and medium towns.\textsuperscript{52} The lands they abandon are 'sold' (that is to say, the right to use them is exchanged for money) to the peasants remaining in the village or are reallocated administratively.

This social polarisation in the countryside is quite contrary to the egalitarian ideology of a peasant-based party. It is a source of tension and poor peasants have attacked their richer neighbours ‘robbing their goods and destroying their equipment’\textsuperscript{53} but little is known of these social conflicts.

Women are the main victims of ‘decollectivisation’. In effect, wives and daughters of peasant families are once again working under the household head for no pay, whereas in the commune system they earned ‘workpoints’ which gave them a certain independence.

Another negative consequence of ‘decollectivisation’ is the partial disappearance of medical and social services, as well as rural education, because these were financed by the communes and the work brigades. The report by Zhao Ziyang to the Twelfth Congress foresees that the unfavourable situation of the rural regions will be partly overcome by the end of the century when, he states: ‘primary education will be generalised in the urban centres and in almost all the rural regions’ when ‘the GDP will have doubled and will allow people to achieve reasonable comfort’.\textsuperscript{54}

These forecasts seem somewhat optimistic if we consider the extent of the urban and industrial problems that remain to be resolved, and the negative effects of the widening economic and social inequalities, factors which the Twelfth Congress did not attribute sufficient importance.

GENERAL REMARKS ON THE URBAN AND INDUSTRIAL REFORMS

Before discussing non-rural problems, three general remarks are in order:

(i) these problems are much more complex than the rural ones, because the policy of technical and industrial modernisation which the CPC has decided to apply to China requires entirely new structures. These structures must be adapted to the needs of socio-economic development not only of China but also of twentieth-century international economic relations. To a great extent they must be invented, in contrast to the rural sector, where to a great extent it is the former social relations which are being restored in specific forms. This means, of course, that these social relations will have to be fundamentally transformed, but this is not yet a major issue.

(ii) the divergence in views is still considerable at all levels upon what the urban and industrial reforms are needed in order to reach the objectives set by the CPC, not least because of their novelty. In fact, these reforms
have hardly started, despite appearances to the contrary. It is only possible to give a brief description of them and some provisional conclusions as to their implications.

(iii) these reforms are essentially concerned with the enterprises, the wage system, prices, management and planning. They require analyses of four points in particular: the development of the urban private sector; the drastic reduction of the role of 'imperative' planning; changes in the management and price systems; and the credit system and demand management.

Since 1979, there have been many attempts to increase the efficiency of the management and planning of enterprises. A number of measures have been applied, which are sometimes contradictory. Moreover, the problems linked to urban reforms have generated considerable agitation without leading to a clear direction. Only in October 1984 did the Central Committee decision on 'reforms of the economic structure' recognise the ineffectiveness of the partial decisions taken previously and affirm its desire to carry out an urban economic 'revolution'. The principal aspects of this 'revolution' should minimise the role of government in the administration of enterprises, which would then gain their autonomy and be forced to compete with private firms. Simultaneously, the scope of 'imperative' planning is gradually being reduced as market forces grow in importance due to the price reforms.

(a) The Development of the Urban Private Sector

It should not be forgotten that the urban reforms were initiated in 1978–79 when the urban private sector was already expanding rapidly. They have been aided by the pressure from millions of young people looking for work and by a revision in the definition of socialism. As to the first point, the following figures may be useful:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>PERSONS ENTERING THE URBAN WORKFORCE (millions)</td>
<td>5.44</td>
<td>9.03</td>
<td>9.00</td>
<td>8.20</td>
<td>6.65</td>
<td>6.28</td>
<td>7.22</td>
</tr>
</tbody>
</table>


The years of greatest tension – which provoked serious discontent, demonstrations by young people and violence – were those between 1979 and 1981. During these years the authorities naturally gave priority to the rapid increase of employment. These tensions arose from the stagnation in urban employment since 1966 and the return to the towns of millions of young educated people (jeunes instruits) sent to the countryside during the Cultural Revolution.

On the ideological plane, the idea began to appear that China was still in what was henceforce known as the 'primary stage of socialism'. According to this concept (developed at length by Zhao Ziyang in his October 1987 report,
but of earlier origin) many different forms of enterprise can coexist with state enterprise and expand, which is a characteristic of *socialisme à la chinoise* in its primary stage.

In fact, along with the establishment of millions of small private firms, small and medium state enterprises were converted into private firms of diverse juridical nature. Usually they were leased, but in practice (and this is more or less acknowledged officially) they usually seem to have become private property in the form of cooperatives where the shares are distributed to the workers and yield a dividend in the normal way. Moreover, the authorities have decided to privatise all those unprofitable and medium state enterprises.

Towards the end of 1984, there were some 4.2 million stores and workshops owned by urban families, which employed some 5.4 million workers. Many of these small individual enterprises were set up by young people unable to find employment, who entered business in order to obtain a modest income. However, although these private enterprises do provide employment, they also provide large incomes for their managers. They have come to constitute one of the main forms taken by private urban capitalism and exist in industry, commerce and transport.

One of the most typical cases is that mentioned by W. Zafanolli, of the Minsheng private navigation company, with five vessels and 160 crew which has been able to compete on the Chongqing–Shanghai route against the subsidised national company with 5,000 employees.

(b) The Drastic Reduction in the Role of Detailed and Centralised Imperative Planning

One of the most striking changes is the drastic reduction in the scope of 'imperative planning', which symbolises the profound transformation in economic relations which has occurred in China during recent years. Since 1979, the planning system has been reformed by reducing the number of state enterprises subject to the plan and the number of fixed targets. In subsequent years, the plan was further reduced. In October 1984, the plenum of the Central Committee decided to reduce to 50 the number of products covered by compulsory planning; the level of output of other products is (in principle) directly determined by market mechanisms, by competition between enterprises and, indirectly, by an indicative plan which should use 'economic levers' (leviers économiques) such as credit and fiscal instruments.

We do not have precise and detailed statistics that would reveal how the reduction of imperative planning is progressing in industry; in agriculture it had been practically abolished by 1985. However, we can estimate that as a whole the central plan for 1977–78 covered about 50–55 per cent of gross industrial production, the proportion varying from 100 per cent for the centrally administered firms to 20 per cent for collective rural enterprises. By 1984, the central plan did not include more than 30 or 40 per cent of gross industrial output, and this proportion has since continued to decline. This change has been accompanied by radical modifications in the price system, as well as in the management and finance of enterprises.
(c) Transformations in Enterprise Management and the Price System

The reform of state enterprise management and of the price system in China has been carried out in a number of steps. It is designed to ensure a better use of available resources and to make official regulations on management consistent with the real activities of enterprises because, before the reforms, a facade of centrally planned management disguised an incalculable number of undeclared operations. This situation appears to exist in all centrally-planned economies to some extent, but in China it had reached 'a degree quite out of proportion with previous experience', according to F. Lemoine.62

In the first stage (from 1979 until the autumn of 1984) the measures adopted tended to simplify planning, by limiting the number of plan indicators, substituting bank credit for budgetary investments, and by authorising enterprises to sell freely any output above the plan target. Enterprises were allowed to retain a greater part of their profits, weakening the centralised system of resource allocation, and large numbers of enterprises in the same branch were concentrated in large corporations which plan their production and distribution internally.

These partial reforms were shown to be largely ineffective: they could not force the enterprises to reduce their costs, or get them to stop selling illegally (indeed such sales were encouraged by the official authorisation of a poorly controlled 'free market'), avoiding taxes, and distributing bonuses to all employees – even though these were supposed to reward the most productive among them. Moreover, all the financial calculations (calculs économiques) were without meaning because they were based on prices fixed since the 1950s and which did not correspond to costs or to scarcity, although the firms themselves expanded as much as possible the output of those products with high prices, and reduced that of those with low prices, in order to maximise profits. When 'free' and 'fixed' prices exist simultaneously, financial calculations become very problematic.

The plenum of October 1984 gave a new direction to the reforms and reduced the role of the imperative plan still further. All those products not included in the plan became subject to the mechanisms of a free market which was supposed to be regulated by a system of indicative planning using controls over credit, taxation and some key prices . . . At the same time, the powers of enterprise managers were increased, while in theory they were supposed to be controlled in their turn by the trades unions at the firm level. However, these unions do not usually fulfil this role of countervailing power because their leaders are more concerned with the growth of production (the priority for the CPC of which they are members) than with the claims or wishes of the workers. Thus their prestige is virtually non-existent.

The existing production capacity, the rise in marketed agricultural production and the initiative of an enormous number of economic agents, all generated a rapid growth in industrial production, urban employment and monetary expenditure. However, it cannot be said that this indicative planning had any more influence over the functioning of the economy or the production structure than imperative planning. The Chinese economy still suffers from many disequilibria, bottlenecks, and price rises which generate a strong inflationary pressure.
A remarkable aspect of this situation is that it corresponds to an attempted transition away from an economy dominated by sellers (with its shortages, deteriorating quality, etc.) towards an economy dominated by buyers. All the historical experiences indicate that this transition is among the most difficult. In spite of the disequilibria we have discussed, it seems to me that China enjoys relatively favourable conditions for this transition due to judicious use of a price system with two or more levels.

Sufficient studies are not available on the way in which this price system operates in China. However, we do have some partial analyses which throw light on certain effects of this price system and permit some conclusions. A good example is the CESRRI study.

Before examining certain results of this inquiry, it is worth underlining that once the new price and management system has progressively freed prices for part of production, shifting it partly from planned distribution to market mechanisms, and increasing the portion of profits retained by enterprises, these retained profits are allocated to productive investments within the firm and to the development of certain social activities (bonuses, housing, etc.) for the workforce; but they are also invested in activities outside the enterprise. To this end, enterprises can enter into agreements among themselves, create new firms (even under certain conditions, with mixed capital held by the state and the private sector) and make loans. Under the new system, enterprises may also borrow from state banks, from other firms or from the public, especially by issuing bonds. State industrial enterprises can also engage in subcontracting and set up affiliates in very diverse activities, such as transport, commerce, and hotels.

The managers of state enterprises have wide powers in personnel administration, which is their sole responsibility: the manager decides on hiring and dismissals (although this latter is unusual), and on promotions bonuses and punishments. The main objective of enterprise activities is to guarantee the expansion of their output so as to increase their profits and eventually their internal investment.

After these changes in the functioning of the state enterprises, they have been supposed to operate more and more like private capitalist firms, subject to a limited number of administrative controls. However, these state managers do not yet behave like capitalist managers because a kind of behaviour has emerged, based on the 'paternalism' of the old system and a sort of 'collaboration' with their workers. The form taken by this collaboration in a market dominated by sellers has had far from favourable effects on the reorganisation of the labour process, enterprise modernisation and increased efficiency.

Commenting on the reform of the price and management system, the Chinese economist Xue Muqiao states that the objective of the reforms is to give real autonomy to the enterprises, to make them responsible for their own profits and losses, and to replace political directors with managerial ones. Xue stresses that this reform requires a transformation of the systems of planning, finance, banking, commerce and wages. If the urban reforms are only partially implemented, they will encounter serious difficulties.

The difficulties to which Xue Muqiao refers consist among others in the
resistance to change on the part of local and provincial cadres. These cadres frequently demand that managers obtain ‘authorisations’ for all sorts of purposes from them, even though these authorisations are legally useless. The significance of these requirements is that the cadres obtain their bribes (pots de vin) in this way. To combat this phenomenon, the application of the rule of law to everyone is stressed – albeit with only partial success.

The powers granted to directors and local authorities by various central government decisions in order to promote decentralisation are often used by the leading cadres of these institutions for their personal gain. Such ‘economic crimes’ are severely punished when they are discovered: for example in the first half of 1986 nearly 19,000 people were arrested for such crimes, twice as many as in the same period of 1985. In January 1986 Hu Qili, a member of the politburo announced a further strengthening of the campaign against corruption among the cadres.

This fight against corruption should also play an educational role: according to Hu Qili ‘it is necessary to execute one in order to warn a hundred’. This phrase expresses well the brutal determination with which the campaign against corruption (répression économique) can be implemented; but although such crime can be limited, it cannot be eliminated because the country is so large and the central authorities have little information about what goes on in the various localities, where in any case the cadres work together in a clientelistic network.

In spite of the negative consequences (officially considered to be transitory) on the behaviour of certain directors, economic cadres and administrators, the reforms forsee a growing autonomy for the enterprises and the transformation of the price system is continuing. More and more the management of enterprises is being distinguished from the concept of state property: the main manifestation of this concept now being the nomination of enterprise directors by the political or administrative authorities, on ‘the recommendation of the Party’. These nominations are supposed to give weight to the technical and managerial capacities of the directors, who are also assessed by examinations and competitions, as well as by their own balance sheets.

Taking these points into account, we can examine some of the results of the CESRRI survey. The survey shows that the new system has strongly motivated the state enterprise managers to increase their profits, and has effectively increased the autonomy of firms. The proportion of raw materials bought on the market by firms in the sample (as opposed to planned allocations at fixed prices) rose to 44 per cent in the first half of 1985, as opposed to 27 per cent in 1984. Since the end of 1984, 77 per cent of the enterprises surveyed had felt it necessary to adapt production to demand, while 90 per cent had decided to sell at least part of their production on the open market, although the rest still went to state organisations at administratively determined prices.

Thus the ‘two-tier’ pricing system was extended rapidly, as an intermediate step between administered prices and distribution and prices determined on the open market, at higher levels. Beyond a certain threshold, those operations made on the open market have a considerable marginal impact and
lead to a notable saving in raw materials. As early as 1984, 300 enterprises which had decided to supply themselves through the market had reduced their use of steel per unit of output by 18 per cent. Enterprises obtaining supplies on the open market at higher prices also run much lower stock levels. Various methods of calculation indicate that the extension of operations through the market substantially modifies the way in which enterprises behave.

The enterprise reform of 1984 has since been extended to new firms and new products. However, there are still many weak points, particularly those related to the system of prices, wages and investment finance. This last depends upon banking practices which have not been adapted to the new conditions, and the losses absorbed on their loans are increasing. In order to strengthen enterprise responsibility they can be bankrupted, but this sanction, due to its effect on employment, is rarely used. It appears that the reform will still have to establish the logic for a new system, with the objective of gradually moving to what might be called an economy ‘which achieves an organic combination of plan and market’.

One of the consequences of the loose management of the banking system which has prevailed since 1984 has been the swelling of the monetary stock and a constant surplus of demand over supply, as the money in the hands of the population has grown more rapidly than the national income.

\[(d)\] The Expansion of Credit, Decentralisation and Excess Demand Growth

After 1983, by placing the Popular Bank of China at the head of the banking system, the economy had in theory an institution which could play the role of a true central bank and control the other banks (and the rural and urban credit co-operatives), the insurance companies and an investment company linked to an international investment trust. The banking system is in practice decentralised, and its local and provincial branches are subject to pressures from the relevant political authorities. In fact, their activities are poorly controlled from the centre, which does not manipulate the interest rate (set too low to dissuade borrowers) but, rather, regulates the kind of loans that may be made and fixes quantitative targets. These regulations are badly applied not only because the provincial and local bank branches are subject to local political authorities, but also because the staff form part of a network of clientelism and interpersonal relationships (quanxi) which determines the greater part of their decisions. Similarly, the share of profits which each enterprise may retain, and the tax exemptions it may benefit from, depend on a series of negotiations the result of which is often an excessive expansion of credit and investment. As the reforms advance, these investments depend less and less on the allocation of budgetary funds, and more on other sources, particularly from the banks. However, the extent of these resources and their distribution depends to a great degree upon the strength of sectoral and regional interests and their success in overriding national priorities.

In effect, the Popular Bank of China intervenes too little and too late, which tends to create a macroeconomic cycle related to a succession of ‘soft’ and ‘hard’ credit restraints, although never sufficient to correct the excess of
demand over supply and thus reduce inflation. The inflationary pressures create price rises which have officially ranged from 5.5 per cent to 9.0 per cent in recent years, although observers estimate that prices rose by between 15 per cent and 20 per cent in 1985. The rate of inflation fell in 1986, but rose again in 1987, leading to a marked depreciation in the Chinese yuan.

Price inflation is maintained by rising labour costs. This has generated — in situation where investment is also uncontrolled — to a rapid expansion of light industry and a slowdown of heavy industry, which creates the danger of structural disequilibrium because the production of means of production is not keeping up with investment. Recourse to foreign capital — which has been officially encouraged since 1979 — is still minimal and does not cover these shortages. Further foreign borrowing would also result in a degree of external indebtedness that would discourage future investors, so it is not encouraged.

As far as investment efficiency is concerned, the particularly rapid growth of investment in ‘unproductive’ sectors such as housing should be noted. In the Sixth Plan this sector absorbed more than 40 per cent of the investment allocated to capital construction. This is mainly due to the current practice of redirecting the funds allocated to the reforms themselves and to technological restructuring, towards housing, which incidentally reduces considerably the significance of the watchword of ‘modernisation’ which is central to the Deng policy. During the Sixth Plan, productive capital construction was only 6.4 per cent higher than in the Fifth Plan, while unproductive construction was 128.8 per cent higher.

This problem was compounded by the new investments in thousands of small light industrial units, too small to use modern technology. The spatial dispersion of small production units reflects, as in the case of Yugoslavia, the breadth of the pressures exercised by the regional and local authorities and threatens also to lead to duplication and high production costs.

In his article on investment disequilibria, T. Pairault throws light on the danger these problems represent for the future development of the Chinese economy. The investment pattern has evolved to the detriment of basic industries and has worsened bottlenecks, while its economic logic is still weak. Although fixed capital formation totalled some 300 billion yuan in 1986, national product only increased by 80 billion yuan; the share of state revenues in national income fell to 25.0 per cent (compared to 31.9 per cent in 1979); and the official instructions to increase investment in energy, transport and technological modernisation were largely ignored.

These disequilibria have not yet revealed their full effects for two reasons:

(a) higher raw materials prices force profit-maximising enterprises to economise on inputs, including energy. These efforts have met with considerable success but seem to have reached a natural limit which can only be overcome by large new investments and extensive retraining of the workforce.

(b) part of the new income does not increase consumption demand but is saved in various forms, such as debentures and shares issued by state firms and joint ventures with the private sector. According to B. Naughton the negative consequences of significant budget deficits and lax bank finance of investment are ‘almost balanced’ by these forms of
saving, to which not only private individuals contribute, but also enterprises unwilling or unable to invest in their own expansion or in the creation of subsidiaries.

The issue of securities has been very successful, due to their high rate of return (nine to 11 per cent per annum) but they do not seem to have reduced inflation very much.

THE TRANSFORMATION OF THE WAGE SYSTEM

After the plenum of December 1978, the Party and the government were forced to reform the wage system that had gradually been constructed since the foundation of the People's Republic, because it was considered to work against labour productivity growth and to be generating continual increases in labour costs. In 1983 96.8 per cent of workers in state enterprises enjoyed the status of 'permanent employees' having been attached to the same firm where they were first employed, although originally this status was supposed to be applied only to college or university graduates. This status turned each state enterprise into a 'little club' (petite societe) within which employment tended to become hereditary. Each firm supplied its own medical services, insurance, housing schemes, child care and retirement pensions. Wages were increased principally according to length of service. The system of permanent employment favoured laziness and severely limited the mobility of labour between enterprises, sectors and regions. 85

The supporters of the economic reforms have attacked this system, and have pejoratively called it the 'iron rice bowl'. A lengthy conflict ensued between the reformers and the supporters of the existing system, who claimed that it was a 'socialist form', citing Marx to the effect that life should not be reduced to the division of labour. The workers themselves are generally in favour of maintaining the system as they do not wish to lose their job security. Many enterprise managers are unenthusiastic about changing a system to which they are accustomed and which has allowed the establishment of a paternalistic environment and has made it possible to interest the workers in greater profits through bonus schemes unconnected with labour productivity.

The opponents of the system are mainly from among the economic reformers themselves, young 'scientific' managers, and those employees who expect to improve their earnings with productivity-related bonuses. Even though the supporters of reform have been able to demonstrate that permanent jobs retard technological progress and prevent young people from entering employment, resistance to the elimination of this system has been so great that only in April 1983 was the principle accepted of experimenting with limited and renewable contracts.

Outside the state sector there exist a large number of wage earners who do not benefit from this status. R. Low 86 identifies three kinds of temporary labourers in this category:

(a) those who work in the small rural factories, who totalled some 20 million in 1980 and earned about 374 yuan a year. They also work in the fields, and by all indications have increased greatly in numbers since 1980.
(b) the peasants hired by an enterprise from a peasant work team. Their number must have diminished since 1978 in favour of the first category, because the team receives part of the wages.

c) seasonal workers in cane-cutting, terracing, building and so on. There is no reliable information on their number or earnings, but given the expansion of construction activity since 1980 this category must be growing rapidly.\(^{87}\)

Compared to these categories of workers, those who have job stability are privileged. They also constitute one of the key social bases of support for the regime, which is why part of the CPC leadership hesitates to alter their status.\(^{88}\)

Apparently the reformers were – and are – even more enthusiastic about a ‘labour contract system’ than about industrial modernisation because it means labour mobility and the establishment of a close link between individual productivity and earnings. They argue that between 1978 and 1982 labour productivity hardly increased at all while average real wages rose substantially.\(^{89}\) In any case, since 1978 labour productivity has risen less rapidly than nominal wages, generating increased labour costs and greater aggregate demand.

Despite the official decision to push forward with the labour contract system, by 1986 it still only affected about three million employees in the state sector, which is a minuscule proportion of the 86 million employed in this sector alone.\(^{90}\)

Since 1984, the theme of the labour contract has occurred frequently in official speeches. Zhao Ziyang made reference to it in his political report of October 1987, denouncing the practice of what is known as ‘eating out of the same pot’ as egalitarianism:

> We must continue to overcome this tendency with ideological work and practical measures. Where the conditions are appropriate . . . payment according to standardized piece work should be generalised . . . It is necessary . . . to make sure that the average rate of increase of wages and bonuses does not exceed that of productivity . . . and that the growth of the consumption fund does not exceed that of the gross national income disposable.\(^{91a}\)

These declarations demonstrate that the direction of wages policy has been the same over a number of years, but that it clashes with a contrary trend based on the passive resistance of workers and the attitude of many managers and cadres at the grass roots. The influence of these groups is capable of creating a policy which is in effect quite different from the official one.

So that the reforms can continue in depth, it is necessary to re-establish the aggregate and structural equilibria of the economy and to change the mentality of the workforce. This requires more than speeches and the formulation of general policies. It requires the creation of the social conditions and institutions which can inspire the trust of the workers and ensure them advantages equivalent to those which they had enjoyed in the ‘little clubs’ which the state enterprises always represented. Thus among the problems raised by the application of the reforms are to be found a system of
guaranteeing social security, general medical services, and free education; all
of which poses serious financial problems in a period when the state share of
national income is falling.

OVERVIEW, PERSPECTIVES AND QUESTIONS

Leaving aside for a moment inequalities and economic contradictions, it
would appear that the changes that China has experienced since 1978 have
given a new impetus to an economy which had (according to the Party itself)
lost its dynamism and an agriculture which had not expanded fast enough to
support industrialisation or higher standards of living. During the period
which began at the end of 1978, agricultural and industrial output have grown
remarkably, essentially as the result of the increase in marketed farm
production and, to an extent, difficult to measure but none the less
undeniable, the economic reforms. The initiative of a myriad of small private
enterprises, operating more flexibly than the state apparatus, has well adapted
production to current demand for consumer goods, although not to the future
need for the producer goods required to support steady economic growth.

Between 1980 and 1986 the gross value of agricultural production grew at
10.4 per cent per annum, due to the expansion of the most profitable crops.
The index of industrial production rose by 10.1 per cent per annum, and that
for light industry by 12.5 per cent. Industrial expansion was accelerated
despite a macroeconomic 'overheating' marked by shortages of energy and
raw materials, and a serious increase in imports which it was necessary to
restrain in 1987 due to heavy external indebtedness. The economic restraint
was not as strong as had been foreseen, and in fact during the first three-
quarters of 1987 industrial production rose at an annual rate of 15.3 per cent,
about double the planned rate. These figures confirm that the political
power centre does not possess any real means of controlling the economy.
This lack of control already existed in the times of 'imperative planning', but it
was exacerbated by the relaxing of planning itself and by the measures of
decentralisation which accompanied it.

The monetary incomes of the peasantry have risen faster than production
because agriculture has been progressively less subject to forced deliveries at
low fixed prices, and farmers have benefited from higher market prices except
in cases of gluts. Between 1980 and 1985, the annual income of a peasant has
gone from 191 to 400 yuan; in 1987 it should have reached 500 yuan.
Meanwhile, the average urban wage went up from 762 to 1176 yuan at
current prices, although the increase in real terms is less due to price inflation,
especially for food.

These favourable results in the aggregate should not disguise what Tuan
Jiyuan said in January 1986: there are real difficulties caused by the rapid rise
of wages in certain industrial sectors (although the real income of some
families has fallen), the excessive rate of investment in relation to the
macroeconomic balances, and the over-emission of money and the fall in
exchange reserves. He was of the opinion that the 'necessary measures' had
been taken to redress the situation. However, experience has shown that it has
not been possible to eliminate more than a part of what he called 'the factors of
instability and that the regional and social inequalities continue to grow while the structural disequilibria get worse. Indeed, certain inequalities are even accepted by the regime with the argument that 'someone has to get rich first', presumably on the grounds that they will blaze a trail for the rest, although there is nothing to prevent the former from getting even richer while the latter follow them more slowly or not at all.

In any case, the Thirteenth Congress has confirmed that the reforms are going ahead. Deng Xiaoping is still the top leader and has retained the key role of controlling the armed forces, even though he has given up his other functions. The other octogenarians have retired and a 'new generation' aged 65 or less, more favourable to the reforms, has joined the Politburo.

The Thirteenth Congress possibly marks another step forward in what has become known in China as the 'combination of Marxism and practice', the first two historic steps having been the adoption by the CPC of the idea of the 'new democratic revolution' proposed by Mao in the 1930s, and the December 1978 meeting of the Central Committee following the Eleventh Congress. This meeting gave priority to objective of the 'four modernisations' in place of the Maoist concept of the 'permanent class struggle in socialist society'. This new objective is now closely linked to the idea that 'China is at present in the first stage of socialism' which should last a century according to Zhao in his report to the Thirteenth Congress.

The economic section of this report insists once again - as in previous years - that the need to develop the productive forces as rapidly as possible requires varied forms of property, a struggle against 'egalitarianism', a policy of 'openness' and 'economic and technical cooperation with foreign countries'. He also insists that it is essential to distinguish between ownership and management, judging that the relations between the state and enterprises should always be detailed in contracts. Speaking of enterprises (and including the state by implication) he praises 'healthy stimulation' which permits notable administrators to be rewarded or punished, thanks to market competition and the personal responsibility system. This should 'make people respect work discipline' and allow 'the creativity of employees and workers' to be expressed.

That part of the report dealing with the 'reform of the political system' contains few novelties, but it is important because it reaffirms that excessive democracy cannot be permitted to the detriment of state laws or social stability. While talking of the 'progressive improvement' of democracy, of socialist legality at the service of economic reform, of internal and external openness, and of the struggle against bureaucratisation, Zhao repeats that the country should be content to remain 'under the leadership of the Communist Party', functioning on the principle of 'democratic centralism' - which concentrates power at the top of the Party. It is true that Zhao mentions co-operation and consultation among a number of political parties, but to date this has been no more than a parody and there is no indication of change in this regard. On the contrary, Zhao declared that 'the separation of powers or alternation of parties in government as in the West' should never be introduced.

It should also be borne in mind that the press tends to highlight the darker
side of what is going on and the abuse of power by various institutions. Thus, since 1986, the press has denounced a number of cases of torture in prisons and police stations which violate the constitution.101

These points raise a number of questions which I cannot pretend to be able to answer properly. The first, to which I have already given a preliminary reply, is that of the nature of the socio-economic system which is now dominant. In my opinion China is not ‘socialist’ in the sense used by Marx and in which the leadership makes its claims. China was a state capitalist (or ‘party capitalist’) society before and, today, it is one where state capitalism is combined with a number of other varieties of the capitalist mode of production, and with a large petty mercantile production sector which does not rely on wage workers.

In this mixed system, market forces work openly and their existence is recognised and ideologically justified by reference to a notion of the ‘initial stage’ (étape primaire) of socialism. More and more these market forces are outweighing planning, to the extent that the latter has become incapable of exercising real control over the economy. The current ‘mixed system’ is supported by the great majority of the peasantry, part of the intelligentsia (especially the technocrats) and the top leadership of the Party. The signs of a temporary crisis are obvious, but there is nothing to indicate that they are serious enough to force China into an ‘anti-reform’ course.

The writings of the theoreticians and ideologues who advise the political leadership and influence ‘public opinion’, or its equivalent, all support the extension of market mechanisms, albeit under certain control. They even suggest the enlargement of the ‘capital market’ in order to mobilise savings, although for some time these could accumulate within enterprises because of the bottleneck created by the lack of producer goods output. These steps to mobilise savings were taken in 1986 and, above all, in early 1987. The strategy design assumes that ‘socialism’ in the traditional sense of the word will take a long time to come in China.103

Another problem of considerable importance is the capacity of the state to ‘dominate’ or ‘control’ the movements of the economy and of civil society, a problem which faces China just as it does the other so-called ‘socialist’ countries, the industrialised capitalist nations, and the Third World.

After attempting to control the economy by ‘imperative planning’ and ‘political and ideological struggle’ which increasingly impeded the development of productive forces while generating excessive tension and intolerance, China has adopted since 1978 a more ‘open’ political line (although deviation from that party line is not allowed) and an economic system which combines market mechanisms with state intervention. Although the economic strategy has been successful in terms of growth rates, it has proved deceptive in terms of macroeconomic control and social criteria, which have never responded to the ‘directives’ or ‘orientations’ of the party and the government, allowing a number of imbalances and contradictions to get worse.

The regime aspires to administer everything, to the point that it has been called ‘totalitarian’, but this does not really obtain in practice, although the desire for total domination (l’aspiration à une domination totale) has been and is present in party ideology. The economy and society, however, have
shown themselves to be both opaque and resistant. 'Opaque' in the sense that nobody really knows precisely what is going on in the economy; all that is known are certain trends and current phenomena and their approximate magnitude. 'Resistant' because institutions such as the civil service, the police, or the provinces disobey or hinder orders given 'from on high' when they consider them inconvenient. This does not mean of course that a determinate policy cannot be at least partially implemented, as the birth control policy indicates. It seems that the population growth rate has fallen to 1.1 per cent which will – if maintained – limit the Chinese population to some 1.2 billion by the year 2000. In quite another area, in 1987 the Chinese government appears to have been able to control, provisionally at least, the serious foreign trade deficit.

This opacity and resistance to state power by economy and society pose serious problems for China because basic industry has not developed at a rate sufficient to equip the factories and workshops to handle the enormous influx of manpower in the coming years. Much more investment has been concentrated in light industry than the government wished; while the small size of most of the new firms, their backward technology despite the watchword of modernisation, and the poor quality of their products, means that their output is difficult to export in exchange for machinery. This poses a serious employment problem for the future.

It appears that the development strategy and system of economic control that China has relied upon since 1978 will have to be replaced by a new combination of more active indicative planning and a new role for market mechanisms, particularly a better use of bank loans and differential interest rates.

In order to resolve the immensely complex problems which China must confront and eliminate 'opacity and resistance' without leaving hundreds of millions of impoverished Chinese by the wayside, it will be necessary to support the development of a broad democracy (une large démocratie). This cannot happen unless the sad tale of the 'correct line' of the single party, which silences justifiable criticisms if they do not 'conform to the line', is ended. Although the student demonstrations at the end of 1986 were short-lived, as were the youth demonstrations of 1978–79, they pose the real problem: that of a democracy which can make economy and society capable of rising to the challenge of history. State action is obviously indispensable for the solution of long-run problems, but without democracy this action is blind and paralytic, particularly when those who hold state power believe themselves to be all-powerful, clear sighted and possessors of the greatest wisdom.

One more question remains to be answered: what is the role of Marxism in the Chinese political economy?

After a number of years, the Chinese Communist Party seems to wish to break with the pseudo-Marxist dogmatism before it leads to even worse catastrophies. This is the meaning of Deng's frequently repeated phrase 'One must argue from the facts'. The People's Daily of 7 December 1984 put it thus: 'There are many situations which Marx and Engels did not experience, nor Lenin . . . . Thus problems cannot be solved simply by referring to texts they wrote in another age.' It is true that the CPC still claims to be 'Marxist-
Leninist’ and uses this label to attempt to silence those who do not agree with
the Party, but this did not prevent Zhao Ziyang from saying since 1965 that it
is necessary to know ‘the truth through facts’,109 nor from the Red Flag from
stating (on 1st May 1986) that: ‘Marxism is not an immutable dogma’ [a
sentiment to which Marx, who did not wish to be considered a ‘Marxist’
himself, would certainly have subscribed – C.B.] . . . ‘no area should be closed
to academic research.’ Only a little earlier Su Shaozhi, the director of the
Marxist-Leninist Institute, had traced a parallel between ‘modernisation’ and
‘democratisation’, 110 a concept which had cost Wei Jingsheng dear in 1979.111

Many more statements such as these could be quoted to the effect that a
number of influential theoreticians argue that the pretense of ‘Marxist
legitimacy’ should be abandoned.112 This renunciation could lend authority to
the regime, when it regains a degree of legitimacy from the expectations raised
from the reforms, by permitting decisions to be taken without having to worry
whether they are consistent with a ‘theory’ which at best can only be indirectly
useful in the resolution of entirely new problems. However, this ‘authority’
will not be sufficient to successfully tackle the difficulties China must face.
Real debates are necessary, but they are incompatible in the long run with the
temptation for the political leadership to hide behind their own ‘political
authority’ and to try to exercise ‘rule over thought’ (gouvernement de la
pensée).

That all these questions should arise now and that the issue of separating the
powers of the Party from those of government should be raised113 demonstrates that the transformation of political and ideological relation-
ships go together with economic reforms. A really new China, even if not
socialist, is probably emerging from the matrix of change already under way –
a transformation which is sufficiently deep-rooted to be difficult to reverse.

NOTES

Abbreviations

BI       Beijing Information
BR       Beijing Review
CEMI     Centre d’Etudes des Modes d’Industrialisation
CESRRI  China Economic System Reform Research Institute
CPE      Courrier des Pays de l’Est
EHESS    Ecole des Hautes Etudes en Sciences Sociales
JCE      Journal of Comparative Economics
PCC      Parti communiste chinois
PCUS     Parti communiste del’Union Sovietique
PME      Petites et moyennes entreprises
RMRB     Renmin Ribao (Quotidien du Peuple)
RPC      République populaire de Chine

1. See list of abbreviations above.
2. The ‘great leap forward’ disorganised production and transport and, after the experience of
   rapid growth between 1957 and 1959, national income did not return to its 1960 level until
   1965. The ‘cultural revolution’ was accompanied by falling national income in 1967 and 1968.
   See Shigeru Ishikawa, ‘China’s Economic Growth since 1949 – An Assessment’, China
   Quarterly, June 1983, pp.242-81, Figure 1, p.247.
3. K.C. Yeh, ‘Macroeconomic Changes in the Chinese Economy during the Readjustment’,
   China Quarterly, Dec. 1984, pp.691-716, Table 1, p.700. Note that the 2.5 per cent growth is
calculated in 1980 prices and based on national income per head, not consumption. According to S.L. Travers ('Getting Rich through Diligence', in E.J. Parry and C. Wong (eds.), Reform in Post-Mao China, Cambridge, MA: Harvard University Press, 1985, p.111) peasant consumption has risen by 0.5 per cent a year over the past twenty years, although urban incomes have risen somewhat faster (ibid., pp.111-12).


5. Yeh, op. cit., p.702.

6. Ibid., p.706.

7. These figures are calculated at 1980 prices, from the same source as Note 5.

8. The history of the formation of the 'Maoist development model' has often been described; this is not the place to repeat it. I will simply recall that the organisation of the state sector under Mao was very similar to the Soviet model, even though the collective sector, with its rural popular communes and its collective neighbourhood enterprises, was specifically Chinese. The principles of economic policy were also formally different from those of the USSR, particularly because of the adoption of the principle of 'agriculture as the base and industry as the leader' and the stress, above all at the local level, of that other principle of 'development by one's own efforts'. The general principles of 'imperative planning' were very close to those of the USSR, although in theory a greater scope was allowed to enterprise initiative. In my book, La construction du socialisme en Chine (Paris: Maspero, 1965 – in collaboration with J. Charrière and H. Marchisio) there is a description of the 'Chinese model' on the eve of the Cultural Revolution. In Mao Tse-toung et la construction du socialisme en Chine (Paris: Hachette, 1974) are to be found unpublished texts (translated by Hu Chi-hsi) which state Mao's basic ideas on these problems, particularly critical notes on Stalin's Problèmes économiques du socialisme en URSS.


10. On living standards, Liang Wensen and Tian Liangshia ('Final Products: A New Departure', Social Sciences in China, No.4, 1980) state that between 1957 and 1977, despite an increase of 10.7 per cent in the average nominal wage, the real wage declined and the real income per head of the peasantry only rose marginally.

11. R.M. Field (op. cit., p.506) suggests that during the two years after 1966 the Central Bureau of Statistics could hardly function because its staff had been reduced to 14! This drastic reduction in the number of professionals and specialists in the enterprises and public administration was due principally to their not being trusted by the Revolutionary Committees.

12. During the Cultural Revolution the universities, engineering schools and other similar institutions only functioned at low levels (at least between 1966 and 1974), while reading foreign publications - even technical ones - was regarded with suspicion.

13a. Since the 1960s, I have insisted on the need to avoid becoming trapped within the constraints of highly centralised imperative planning and to take mercantile relationships into account. The main elements of my argument then can be found in two books: La transition vers l'économie socialiste (Paris: Maspero, 1968) and Calcul économique et formes de propriété (Paris: Maspero, 1970).


15. In Sichuan, this movement enjoyed the support of provincial party leader Zhao Ziyang, the future prime minister, although this fact should not obscure its mass support among the population. See A.R. Khan and L. Eddy Agrarian Politics and Institutions in China after Mao (Bangkok: ILO, 1983), particularly pp.14-15.

16. Some biographical points about Deng Xiaoping might be useful, as he is the true leader of the Chinese People's Republic. Born in Sichuan in 1904, Deng did political work in France in the early 1920s with Zhou Enlai, the future prime minister of China from the establishment of the
MARKETS WITHIN PLANNING

new regime until his death in 1976. On returning to China, Deng took part in the guerrilla war and was on Mao's side in the conflict within the leadership about the strategy to be adopted against Chian Kai-shek. He was a leader in the armed struggles between 1934 and 1949. He is, therefore, one of the 'founding fathers' of the People's Republic.

Initially one of the leading administrators in south-east China, he soon moved to high office at the centre of power: he was deputy prime minister under Zhou Enlai in 1952 and became a member of the Permanent Committee of the Politburo and Secretary of the Central Committee in 1956. The Great Leap Forward of 1958 was the start of his disagreement with Mao, and Deng was one of the main architects of the pragmatic policies applied between 1960 and 1962, but which subsequently became one of the principle targets of the Cultural Revolution after 1966. He was 'rehabilitated' in 1973 and appointed deputy prime minister and party vice-president in 1975. However, after the death of Zhou he was once again forced out of power in April 1977.

Shortly after the death of Mao and the arrest of the 'Gang of Four' in October 1976, Deng appeared again and was restored to his posts in 1977. He then supported a process of 'de-Maoisation' and modernisation. In the Twelfth Congress of September 1982, he became chairman of the advisory commission to the Central Committee, created on his initiative, while keeping his seat on the permanent committee of the Politburo and his membership of the powerful Military Commission.

17. On the notion of the 'effective political line' see my Questions sur la Chine après la mort de Mao (Paris: Maspero, 1978, pp.70 et seq.)
21. One possible answer to the question is given by Bergère (op. cit., p.160) who argues that China still has to undergo its own 'Meiji revolution'. For my part, I believe that the specificity of China's history and conditions is such that no foreign 'model' can be applied to it.
23. According to Ma Hong, the president of the Social Science Academy.
24. This expression has been employed by C. Aubert 'Rural China: The Silent Revolution' (Projet, July 1982).
25. See the project 'Une Chine rurale “responsabilisée” ' carried out jointly by the Laboratoire d'Anthropologie et de Sociologie de Tours, the Institut National d'Economie Rurale (Montpellier) and the Amitiés Franco-Chinoises. They published a report in 1985, in which H. Marchisio participated as author and editor.
26a. These prices are fixed at a level between the former obligatory delivery price and that of the market. On this point see Riskin (op. cit., pp.284-302) who describes well the process of privatisisation of peasant plots and the successive directives designed to halt the peasant movement, which was going further than the Party leadership seemed to want. On the problems of agricultural prices and incomes during this period, see also T.B. Wiens, 'Issues in the Structural Reform of Chinese Agriculture' Journal of Comparative Economics, Vol.11, pp.373-84 (1987) which shows the narrowing gap between market prices and the higher prices paid by the state.
26b. It should be clearly stated that in general Chinese statistics are particularly unreliable. This holds true in all fields including demography, industry, employment, etc. The original sources themselves admit distorted declarations and the statistical services do not have the means to undertake serious checking. None the less these statistics reflect the direction of change and its approximate extent.
27. A rough estimate from the figures given in Wiens op. cit., p.379.
28. Statement by the director of the Rural Research and Development Centre (Le Monde, 10 Sept. 1987).
31. Figures given by Professor Xun Dazhui to a group of Indian economists and reproduced in the mission report by K.S. Krishnaswamy, Economic Change in China (Bangalore, Aug. 1987) p.18.
31b. 28 Sept. 1987, p.5.
32. It is known that employment in non-state industry and commerce reached 7.5 million in 1983, of which 5.2 millions were in rural areas, which was 16 times higher than in 1978 (Riskin, op. cit., p.382).
33. See the political report by Zhao in BI, 9 Nov. 1987, p.19.
34. Ibid., pp.22–3.
35. Lemoine op. cit., pp.81 and 84.
36. Weins op. cit., p.382.
37. Ibid., p.374.
38. Lemoine op. cit., p.85.
41. Enterprise management (private, collective or state) was from now on judged essentially by profitability and quality control was poor. Sales of low quality products multiplied, as the result of the lack of information on the part of the purchaser, of the absence of administrative control, or of collusion with the distributors. In this way on the Guangxi 50,000 hectares of rice were destroyed by bad fertilisers imported from another province; while in Hubei hundreds of hectares have been made unsuitable for cultivation by the excessive application of insecticides under the distributor's advice. Unsafe practices also occur in consumer goods, as in the sale of 'reconditioned' industrial oil as 'salad oil', poisoned cottonseed oil, or adulterated alcohol. Many thousands of people are victims of these sharp practices, of which state enterprises are also guilty; they also demonstrate the collapse of regulatory mechanisms and the corruption of both managers and civil servants. According to Le Monde (20 Aug. 1987) one-and-a-half million manufacturers and merchants of perished foodstuffs were punished between 1984 and 1987.
42. The personal relationships between peasant families and the administrative cadres responsible for the distribution of land, with the bank staff responsible for the distribution of the means of production (part of which was allocated administratively rather than being sold at market prices) played an important role here, as in other areas of the economy.
43. See BR (21 June 1982) and Riskin, op. cit., p.307.
52. Riskin, op. cit., p.308.
53. Bergère, op. cit., p.133.
55. BI (9 Nov. 1987), p.22 et seq.
56. According to W. Zafonelli, 'De la transition socialiste a la transition capitaliste' (Est-Ouest, No.4, 1985, pp.33–4) in 1984 70,000 state PMEs had already been privatised.
57. Ibid., p.34.
58. This transformation has a symbolic nature, for two reasons: first, imperative planning was considered to be indissolubly linked to socialism as such; and second, this change would overthrow the formal rules by which the economy functioned. In fact, production and investment by enterprises were already quite distinct from the forecasts and orders of the
plan, as is the case in all other socialist countries.

59. Lemoine, op. cit., p.32.

60. These estimates seem to be confirmed by local data: see, for instance Wong, op. cit., pp.385-98.

61. Ibid., p.389.

62. Lemoine, op. cit., p.29. There are many reasons for this exceptionally acute separation between the facade of planning and reality. They range from the upheavals the country suffered between the late 1950s and 1978, to the rudimentary state of the statistical services and the planning apparatus itself. The Chinese statistical service had only 16,000 staff on the eve of the reforms, compared to 220,000 in the USSR (ibid., p.29). To these must be added the size of the population, the extent of the country itself, and the weakness of the data collection and communications systems.

63. For example, I use here the results of the surveys carried out in 1984 and 1985 by the Chinese Economic System Reform Research Institute (CESRRI). These surveys cover 429 enterprises in 27 towns and are complemented by two opinion polls (with a sample of 76,000) on the public reaction to the price reforms of May 1985, on the attitudes of young people to the reforms, and on socio-economic conditions. A summary of these surveys has been published by Chen Yizi, Wang Xiaoping and their colleagues from the CESRRI as 'Reform: resultats et lecons de l'enquete de 1985 du CESRRI' (CJE, Sept. 1987, pp.462-78).


68. Ibid., p.465.

69. Between June 1983 and June 1985, the proportion of bad debts to construction banks rose from 24 per cent to 52 per cent of their outstanding loans (ibid., p.465).

70a. The press only rarely publicises these bankruptcies, but see the Quotidien des Travailleurs (16 July 1986) on the case of a Shenyang factory. A law of 2 Dec. 1986 regulates bankruptcy in state enterprises. This law is only to be applied gradually and on an experimental basis. The refloating or the restructuring of a loss-making enterprise can be attempted by an administrator nominated by the supervisory authority. When such operations require additional financial resources, it is possible to have recourse to a share issue, of which a proportion should be taken up by the employees of the enterprise themselves (Le Monde, 30 Dec. 1986).

70b. According to Liu Guoguang, 'La planification combinee avec le marche' (BI, 2 Nov. 1987, pp.15-18), who attempts to systematise the experience of the economic reform decisions of the Third Plenum as a consequence of the Twelfth Congress.

71. Since 1984, the purchasing power of the urban and rural population rose by 200 billion yuan, equivalent to 60 per cent of their monetary income; in 1985, consumer demand increased by 80 billion yuan (Chen and Wang op. cit., p.471).


74. Between 1982 and 1986, aggregate investment (in the state sector and other sectors) rose from 120 to 297 billion yuan, an annual rate of growth of over 25 per cent. Between 1982 and 1985, investment tripled in the private sector and doubled in the state sector. Pairault, who gives these figures, observes that in 1986 one-third of investment was outside the state sector, and that its growth was particularly rapid: about 31 per cent per annum between 1982 and 1986. He also points out that the banks have become a very important financial instrument; since 1979 their role has been transformed: 'from simple cashiers distributing government investment allocations [they] have . . . recovered their function as sources of credit on their own account – and even as creators of money – and have thus contributed to the expansion of extra-budgetary funds' (T. Pairault, 'Investissement et fonds extra-budgetaires en Chine', Le Courrier des Pays de l'Est, June 1987, pp.25-31).

75. Chavance, op. cit.
76. In the model that Zhou Xiaochuan and Zhu Li constructed in order to simulate the banking system, they demonstrate that under the current Chinese conditions 'the banking system will characteristically generate a monetary policy cycle - cycling between tight and easy money' (op. cit., p.405).

77. *Le Monde* (12 Aug. 1986), *BI* (7 Sept. 1987, p.5; 14 Sept. 1987, p.17). It is extremely difficult to construct an all-China price index because price controls are exercised by the state, by provinces, and by municipalities. The proportion of prices fixed by the state fell from 98 per cent in 1978 to 20 per cent in 1986, but that of locally fixed prices (albeit only 'indicatively') was still 30 per cent in Guangzhou (a town in Guandong). The situation differs from one town to another. 'Indicative' prices allow sales organisations to adjust their prices within certain limits according to quality and market fluctuations.

In early 1987, 50 per cent of retail prices were entirely free in Guangzhou as opposed to two per cent in 1978. According to the Guandong Price Bureau, retail prices and wages have changed as follows in Guangzou:

<table>
<thead>
<tr>
<th>Year</th>
<th>Retail Prices (annual change)</th>
<th>Annual Income of employees (yuan)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1979</td>
<td>4.5</td>
<td>824</td>
</tr>
<tr>
<td>1980</td>
<td>12.9</td>
<td>931</td>
</tr>
<tr>
<td>1981</td>
<td>5.9</td>
<td>1008</td>
</tr>
<tr>
<td>1982</td>
<td>0.3</td>
<td>1083</td>
</tr>
<tr>
<td>1983</td>
<td>0.6</td>
<td>1144</td>
</tr>
<tr>
<td>1984</td>
<td>1.2</td>
<td>1318</td>
</tr>
<tr>
<td>1985</td>
<td>22.5</td>
<td>1596</td>
</tr>
<tr>
<td>1986</td>
<td>3.3</td>
<td>1759</td>
</tr>
</tbody>
</table>

The policy of reducing the number of categories of subsidised goods reduced them from 26 in 1979 to 12 in 1985. This eliminated the losses on the sales of certain goods and reduced the dispersion of profit rates (Li Rongxia, 'La réforme des prix au Guandong', *BI*, 14 Sept. 1987 pp.13-18).

78. The yuan depreciated 47 per cent against the US dollar between December 1984 and December 1986, and 62 per cent against the deutschmark (*CPE*, June 1987, p.3).

79. It is not feasible to examine the important topic of Chinese international economic relations within the space of this article. It should be recalled that China has 'opened' here economic policy in this respect, creating 'economic zones' which are really free trade areas where foreign investments receive particularly advantageous conditions – at least in principle, because reality is more complex. This policy has also led to the creation of joint ventures and foreign borrowing. These forms of 'opening', if taken to their logical conclusion, might justify alarm as to increased external dependence; which explains why in March 1985 Zhao Ziyang, in his report on government activities, recalled a principle that had seemed somewhat forgotten, that of 'counting on one's own strength'. Chussudovsky, op. cit., discusses this 'policy of opening' and some of its consequences, with a wide bibliography. See also Wang Niang, 'La reforme bancaire en Chine' (*CPE*, June 1987 pp.41-55).

80. For example, the optimal size of a washing machine plant is some 200,000 units per annum, but of the 130 factories of this kind in China in 1984, only 9 had this capacity (Chen and Wang, op. cit., p.475).

81. Ibid., p.474. The rapid growth of real estate investment is revealed for 1979-84 in *BI* (28 Sept. 1987). This growth is partly explained by the twenty-year lag in housing construction.

82. Pairault, op. cit., p.39.

84. Naughton, op. cit., p.349. Wang Niang op. cit. also gives some data on share issues and the creation of stock markets in China (pp.49-50). Yue Haitao, 'Emission d'actions a Shanghai' (*BI*, 5 Oct. 1987, pp.24-9) explains the conditions under which state enterprises may issue shares to the public (for up to 30 per cent of their capital), the limited rights of shareholders, and the guarantees in case of bankruptcy.

85. In 1985 the subsidies and indirect benefits received by state employees were worth 526 yuan per head, equivalent to 82 per cent of the average wage (N. Lardy, 'Consumption and Living Standards in China', *CC*, No.100, Dec. 1984, p.854). At this time total wages, including social services, of a permanent state employee were six times the income of a peasant (ibid., p.851). On the system of permanent employment and the attempts to reform it, see White (op. cit. pp.368 et seq.).

87. Ibid., pp.66-7.
88. It should be added that since then they have been free to leave their employment.
89. Between 1978 and 1981 worker productivity grew hardly at all, and in fact fell between 1980 and 1981. After 1982 there was a notable improvement. Productivity increased eight per cent between 1980 and 1984 (White, op. cit., p.373) but this is undoubtedly due mostly to the reduction of ineffective workers in industry and the onset of 'modernisation'.
90. Ibid., p.378.
91. See the political report mentioned above, BI (4 Nov. 1987), p.34.
91c. BI, 2 Nov. 1987.
92. At the official exchange rate, the yuan was worth 2.35Fr's, in February 1986; but this rate overestimates the purchasing power of the Chinese because traditional consumer goods are very cheap if translated into francs; this is also true of services such as rents and canteens, for example. On urban incomes, see also note 77 above. Peasant income per head estimated for 1987 in BI (14 Sept. 1987) p.7; the same source indicates that in 1987 that incomes will be 16 per cent higher than in 1986 for peasants, as opposed to 13 per cent for urban dwellers, at current prices.
93. The government is trying to stop the acceleration in retail inflation without abandoning price 'liberalisation' by also exercising stricter controls.
94. Tian Jiyuan was speaking as a member of the Politburo and as Deputy Prime Minister for economic affairs; see P. de Beer, 'La Chine au grand vent des réformes économiques', Le Mond Diplomatique (July 1986), pp.1 and 7.
94b. The foreign trade situation has improved in 1987 due to the measures taken to reduce the deficit. During the first nine months of the year, exports rose 24 per cent (reaching US$ 26.5 billion) and imports fell by four per cent (to US$ 29.2 billion), so that the trade deficit fell to US$ 2.7 billion as against 9.0 a year earlier (BI, 2 Nov. 1987, p.10).
The composition of the standing committee of the Politburo as well as Zhao's report and what is known of the debates, all confirm that the Thirteenth Congress saw the victory of the reformers. Hu Yaobang, the former general secretary, remains in the Politburo and in the standing committee there are two of his political allies, Hu Qili and Qiao Shi. Zhao, the present general secretary, is one of the instigators of the reforms, and enjoys a noticeable popularity – particularly among the peasants. See P. Sabatier, 'Zhao Ziyang – The Reformist Wave', Liberation (3 Nov. 1987), p.18. The influence of the 'hardline planners' such as Li Peng and Yao Yilin has been reduced, and they no longer represent a strong current of opinion. A small sign of democracy was that there were more candidates than places for the central committee: after a secret ballot Deng Liqun, one of the adversaries of the 'liberal intellectuals', was excluded.
The majority of the amendments proposed by those at the Congress to the Zhao report were in the sense on a 'gradual but real liberalisation'. One such amendment spoke openly of 'violations of rights and liberties'. See F. Deron, 'Passionants amendements' Le Monde (9 Nov. 1987).
96. BI (9 Nov. 1987) and Luccioni, op. cit.
97. BI (9 Nov. 1987), pp.30-35.
98. This slogan had been one of the 'great orientations' launched by Mao during the Cultural Revolution. It had favoured the multiplication of the dazibao, and made possible the publication of small uncensored journals, the right to strike and the election of really representative Revolutionary Committees. The 'great democracy' had attracted the support of those who saw in it a means of fighting the party bureaucracy. In fact, after a brief initial impulse from May 1966 until February 1967, the Cultural Revolution movement came more and more under the control of Mao's followers. On these little known events, it is indispensable to read the book by Hua Linshan, Les années rouges (Paris: Seuil, 1987). Dengquist policy has been to condemn the 'great democracy', including the right to strike, separating in this way economic liberalisation from political freedom.
99. The minor parties, including a local remnant of the Cuomindang under the control of the CPC, are only memories and their existence does not imply in any way an officially recognised 'pluralism'.
100. BI (9 Nov. 1987), p.35.
101. More than 2,000 cases of this kind occurred between January and June of 1987 (*Chronique d'Amnesty International*, Nov. 1987, pp.8-9). A reading of the press shows that these practices continue despite the apparent desire of the authorities. Torture is an ancient and deep-rooted habit in China, sometimes leading to the death of the victim. Here again the weakness of a supposedly 'strong power' when facing solid institutions is apparent.

102. Notably the emission of bonds by the Bank of China (not to be confused with the People's Bank of China to which it is subordinated), which have a face value of 10,000 yuan and cannot yield more than savings accounts. Enterprises are authorised to subscribe to these bonds and to rediscount them to other firms (within the state sector) or to issue their own. On share issues and bearer bonds see *Le Monde* (7 May and 2 Sept. 1987); at present domestic issues of bonds and shares are reserved to Chinese nationals.

103. Many authors speak of the reforms as a 'transition from socialism to capitalism'. As well as Chossudovski, op. cit., there is J. Decornoy 'Socialisme ... ou tentation capitaliste' (*Le Monde Diplomatique*, Dec. 1987) and a small number of Chinese opposed to the actual course of events: Zhao Ziyang made an indirect reference to them in his report to the Thirteenth Congress (*BL*, loc. cit., p.23). Many others speak of a 'bureaucratic class' which holds power above all in 'the administration of the means of production and in its role as mediator in class conflicts'; see, for example, C. Durand, 'Toward a Theory of the State in Socialism', *Monthly Review* (June 1984).

104. This is an approximation. Not all births are registered, especially in the villages. Moreover, it is also the consequence of the infanticide of new-born girls, according to custom. However, if the birth rate does not fall in the near future, the population growth rate may exceed 1.5 per cent because for a number of years after 1987 the number of fertile women will rise rapidly (this figure rose by 7.3 million in 1987) as a result of the 'baby boom' of the 1960s (*BL*, 7 Sept. 1987, p.31).


107. A return of 'imperative planning' seems very improbable. Its shortcomings are still obvious: for example, it encouraged the construction of factories (above all steel mills) supplying products so defective that they could not be sold; the state continued to extend orders to them so that they would not close down.

108. I refer here to the appearance in Peking on 15 November 1978 of the 'democratic wall' in which young people took the initiative. On this wall among others, thousands of citizens pasted posters written by themselves which raised questions previously stifled by official thought. They began to get answers. This experience began to spread, but in March of 1979 on the orders of Deng Xiaoping it was crushed and one of its leaders Wei Jinsheng was arrested. Wei was sentenced to a long prison term and after some years all trace of him was lost because international solidarity did not pursue the case; about which the Chinese leadership was pleased, demonstrating thereby their sensitivity on the issue.

109. Luccioni, op. cit.


111. At the end of 1987, Su was relieved of his post as Director, which seems to indicate that he was considered to be too supportive of 'democratisation'.

112. It is proposed to abandon 'pseudo-Marxist legitimacy' but not the study of Marx's thought in depth to make it more relevant to contemporary reality. On the contrary, an unprecedented effort is being made in this direction, according to G.H. Chang in an interview with Su Shaozhi, Director of the Institute of Marxism-Leninism (*Monthly Review*, June 1986, pp.14-28).

113. This is confirmed in the speech by Zhao Ziyang to the Thirteenth Congress (*BL* Nov. 1987, p.37).