

JPRS-CAR-89-058  
5 JUNE 1989



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# ***JPRS Report***

# **China**

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## UNITED STATES

**Analysis of U.S. Scientists' Opposition to SDI**  
40050429a Beijing ZIRAN BIANZHENGFA  
TONGXUN [Journal of Dialectics of Nature] in Chinese  
No 1, 10 Feb 89 pp 33-34

[Article by Gu Yanxi 6253 3601 6007: "The Movement Whereby American Scientists Are Opposing SDI"]

[Excerpts] [passage omitted]

### IV. Conclusions

This paper has described the movement whereby American scientists are opposing the Strategic Defense Initiative (SDI). But it must be mentioned that it is certainly not the case that all American scientists unanimously oppose the Star Wars plan. There is no lack of supporters for the Star Wars plan within American scientific circles, and several famous scientists are included among them. Both supporters and those in opposition have used various opportunities to make known their views. The American MODERN PHYSICS journal printed a large number of letters from readers as a debate on this problem. As it happens, in comparison with those scientists who oppose the Star Wars plan, there are not a lot of scientists supporting this plan, nor have they attracted many followers, and so this paper has concentrated on describing the movement whereby scientists are opposing the Star Wars plan. But is there nothing of value in the Star Wars plan? I would like to offer my own opinion.

The Star Wars plan grew up under the influence of political, military, scientific, and economic factors, but foremost were military reasons, which have been the primary generating factors behind Star Wars. Implementation of the Star Wars plan is sure to raise the real military strength of the United States, and this would push the Soviet Union toward improving its own military strength, further threatening world peace. It is certainly for this reason that scientists are opposing the Star Wars plan. But at the same time, the Star Wars plan is a large scale scientific research project that involves several high technology fields, as for example microelectronics and supercomputers, high energy lasers, new materials, and optoelectronics. Implementation of the Star Wars plan would be certain to bring developments in those high technology fields. It is estimated that high technology will have a greater and greater share of future technology markets. For this reason, these high technology developments would not only be accompanied by technological advantages, but would also generate enormous economic results. In fact, other countries are even more concerned about the significance of this aspect of Star Wars, not the military aspect. Because these high technology developments will allow the United States to grow rapidly in the next century while maintaining its position as a powerful nation. It is in this regard that the Star Wars plan is a greater threat to other countries. As a

direct result of this plan, various countries have quickly formulated plans to develop high technology. The Western European countries have joined to carry out the European Cartel plan, Japan has drawn up an outline by which to invigorate science and technology policies, and member nations of the Council of Mutual Economic Assistance headed by the Soviet Union have drawn up a comprehensive program for advances in science and technology by the year 2000. China, too, has responded. Because China does not have the base by which to develop high science and technology, we have only made a partial adjustment of the science and technology system. But developing high technology has been made a long-term development goal for the state (see the report by Zhao Ziyang at the 13th CPC National Congress). These things are different from the U.S. Star Wars plan in that the development of high technology by these countries is primarily for civilian purposes.

Historically speaking, much advanced technology has been developed from military needs, only after which does it see broad civilian use. For example, the Manhattan Project to develop the atomic bomb led to the human application of atomic energy, and computers were developed out of the need to calculate artillery trajectories. The Star Wars plan is currently underway, but can the high technology that will develop from it be used widely in peacetime applications? We will have to wait and see.

Since the Star Wars plan can stimulate the growth of advanced science and technology, why would American scientists be so adamantly opposed to it? In my opinion, rather than say that the scientists are opposing the particular plan that is Star Wars, it would be better to say that they are opposing Reagan's pro-war attitude. Everyone knows that Reagan was a hard-liner regarding the Soviet Union, and that he constantly advocated resisting the Soviet Union. During his presidency, the U.S. military strength increased enormously. His advocacy of the Star Wars plan was a military competition with the Soviets in the field of strategic defense. This was contrary to the desires for peace among the majority of American scientists, and so met with their ardent opposition. We cannot help but wonder whether if advanced science and technology were being developed under a Star Wars plan developing for civilian purposes, would then the American scientists be so ardently opposed?

### Analysis of the Brady Plan

40050530

[Editorial Report] Beijing SHIJIE ZHISHI [WORLD AFFAIRS] in Chinese No 8 of 8 April 89 carried an article on pp 14-15 by Zhen Bingxi 3914 3521 4406 that comments on the Brady Plan to relieve Latin American debt.

Comparing the Brady Plan to previous U.S. government policies toward Third World debt, the author comments that if the Brady Plan is any kind of a breakthrough, it is

that the plan represents a change in the U.S. government's past position of adamant opposition to any reduction in the debt and the first time that the United States has made the reduction of the debt part of its international debt strategy.

Analyzing U.S. motives behind the plan, the author identifies the following:

1) To protect U.S. financial interests. Zhen claims that in reality the United States adjusted its international debt policy to help the large "monopolistic" banking groups of the east and west coasts survive the crisis.

2) To protect U.S. economic interests. The United States is trying to protect its economic interests that are threatened by the Third World debt, namely the income and jobs that depend on American exports purchased by the debtor nations.

3) To protect U.S. strategic interests. Americans have now become concerned that the domestic social and political instability of debtor countries, particularly the Latin American countries, will be exacerbated by the worsening of their debt and this instability may even lead to the toppling of their governments and an increased tendency of the debtor countries to move away politically from the United States.

The author observes that while the Brady Plan promises to make some inroads in reducing the debt, success is problematic. The plan must have the active participation of the creditor banks on the one hand and the debtor nations on the other. He points out that after the Morgan Guaranty Trust Company announced its "bonds for debt" plan for Mexico last year, very few banks participated. Because of the lack of participation, the results were far less than had been anticipated. Zhen also notes that one condition for debt reduction is that the debtor nations must accept an IMF-approved economic reform plan that requires the implementation of austerity measures. However, many of the 39 major debtor nations are unwilling to carry such belt-tightening measures, which, says Zhen, means that these countries will be shut out of the Brady Plan.

Turning to the problems he sees with the plan, Zhen criticizes it for being too narrowly focused on the developing countries' debt problem and neglectful of their long-term development needs. He notes that even if the Brady Plan were carried out, the annual reduction of the debt would be at most only \$30 billion or the equivalent of the developing countries' net outflow of funds (payment of principal and interest minus new loans). Zhen finds it regrettable that this still leaves the developing countries without the additional funds they need for economic development. What he finds even more worrisome is the possibility that creditor banks will be

unwilling to provide loans to debtor nations in the future if they are now forced to relinquish some of their financial claims rather than allowed to give them up voluntarily.

Comparing the Brady Plan with the Baker Plan, the author comments that the Brady Plan is an improvement in that it urges creditor banks to reduce the debtor nations' payment of principal and interest. However, he points out that the Brady Plan suffers the same drawbacks as the Baker Plan: It demands that the debtor nations carry out belt-tightening reforms; it doesn't specify what the role of the U.S. government will be and instead foists the responsibility onto international financial institutions, creditor banks, the Japanese government, and debtor nations. The Brady Plan even falls short of the Baker Plan in that it does not stress the need for banks to provide new loans to the developing countries.

Zhen calls attention to the fact that American financial analysts believe that the U.S. government should add two more measures to the Brady Plan. One measure would be to provide tax credits to creditor banks that reduce the debt by large amounts and another measure would be for the U.S. government to take the lead in contributing more money to the special reserve funds of the IMF and World Bank that guarantee repayment of the debt. The author, however, would like to see the U.S. government make even more substantive concessions than the two just mentioned. Says Zhen, the fundamental way to solve the Third World debt problem is to stimulate the economic development of the debtor nations. Toward this end, he says, the U.S. Government should first improve the international economic environment. This would greatly assist the debtor nations' economic development and enhance their ability to pay off their debt. The current disadvantageous international economic environment, Zhen points out, erodes the debtor nations' ability to export and earn foreign exchange. In the final analysis, the developing countries must export if they are going to be able to pay off their debts. Thus, says Zhen, the United States should take forceful measures to suppress and eliminate protectionism, reverse the trend of declining prices for primary products, and encourage a return to rising prices for these products. As a second measure, the United States should reduce the Third World Debt by an even larger amount. Third, the United States should provide new loans to developing countries on an even larger scale. The author urges the United States to take the lead in increasing new loans to and direct investment in the developing countries.

#### **Analysis of U.S. Response to Gorbachev Challenge, Bush's Likely Policy**

[Editorial Report] Shanghai SHIJIE JINGJI DAobao in Chinese of 17 Apr 89 carried an article on p 3 by Washington correspondent Pan Muping [3382 1970]

1627] analyzing the United States' response to the Gorbachev challenge as reflected in the 4 April testimony by George Kennan before the Senate Foreign Relations Committee on the future of U.S.-Soviet relations; a 9 April NEW YORK TIMES article analyzing Soviet development trends and U.S. policy toward the Soviet Union; and the 10 April "Trilateral Report" issued from Paris by former Secretary of State Henry Kissinger, former French President Valery Giscard D'Estaing, and former Japanese Prime Minister Yasuhiro Nakasone on the future of East-West relations.

Discussing what he feels are the most important points in the reports, Pan points out that Kennan believes it is no longer necessary for the United States to look upon the Soviet Union as its primary potential military adversary and that even though Gorbachev's domestic position is weak in some aspects, his reform program is strong and there is reason to believe that any agreement he makes with the West will be upheld by his successors.

Pan notes that the Trilateral Report recommends economic assistance to the Soviet Bloc to help its economies become more market-oriented and urges caution in arms control negotiations with the Soviets. The report's most innovative idea, says the author, was Kissinger's recommendation that there be a division of labor in responding to the Gorbachev challenge, with Western Europe making economic and political initiatives while the United States makes strategic arms control initiatives.

The most significant article, the author says, may be the one published in the NEW YORK TIMES, which predicted that political and economic reforms in the Soviet Union will last through the 4 years of the Bush administration and that even if Gorbachev were to be replaced by someone else, reforms in the Soviet Union will continue. After describing the article's assessment of Moscow's motives and its recommendations to the Bush

administration on how to respond to the Gorbachev challenge, Pan Muping gives his own prediction on the kind of Soviet policy Bush will adopt.

Says Pan, "The Bush administration will not easily believe that the Soviet threat has ceased to exist; on the other hand, it will not let the opportunity to launch a foreign policy initiative slip by while the Soviets are undergoing change." The author warns that if the Bush administration fails to respond to Gorbachev's initiatives, it will be hard for the administration to face up to the American people as well as its allies. The author notes that the Bush administration has made some initial moves. He cites Secretary of State Baker's proposals during his meeting with Soviet Foreign Minister Shevardnadze in Vienna this past March that the two sides cooperate to fight terrorism, speed up the withdrawal of chemical weapons from West Germany, and that the Soviets stop aiding the Nicaraguan government's army.

"Clearly," says Pan, "it is imperative that the United States change its policy toward the Soviet Union." He warns that people should not forget that, "regardless of the direction of the new U.S. policy, it will seek to protect U.S. interests." "Thus," the author predicts, "Bush's policy will likely be to adopt various methods to encourage political reform in the Soviet Union, to pursue mutual benefit through trade in non-strategic goods and materials, to seek detente, to bring about U.S.-Soviet cooperation in solving international problems, and to proceed cautiously on arms control so as to gain relative superiority vis-a-vis the Soviet Bloc."

### SOUTHEAST/ASIA PACIFIC

#### Correction to Friendly Thai Relationship

In JPRS-CAR-89-045 of 15 May 1989 the article "Friendly Thai Relationship Diverse, Progressing" on pages 20-23 should have been published under the "International" Division, "Southeast Asia/Pacific" subdivision.

**'Old Guard' Still Dominates Chinese Politics**  
40050280a Hong Kong CHIUSHIH NIENTAI [THE  
NINETIES] in Chinese No 227 Feb 89 pp 17-19

[Article by Qi Xin 7871 6580: "Zhao Ziyang Misses a Golden Opportunity To Remove the Old Guard"]

[Text] In the Chinese political tradition, "elder statesmen ran the country." To date the "eight elders" are still in charge informally. During the anti-bourgeois liberalization movement, Zhao Ziyang chose to play safe by staying out of trouble. In so doing, he missed an opportunity, to the disappointment of his middle-aged advisers. Economic reform has been misdirected at the wrong target throughout. The solution does not lie with price reform, but denationalization. In 10 years, the elder statesmen will wither away and hopefully denationalization will be accomplished. China will then be left with only "one adherence."

With Zhao Ziyang's departure from the State Council, many of his economic ideas (such as the great international cycle) will have a hard time sailing through the State Council. His young and middle-aged advisers, represented by the Structural Reform Institute of the State Council, also feel there is no room to put their talents to use. The price deregulation of May 1988 was basically not their idea. After the disastrous price deregulation, many of them concluded that there was nothing they could do and decided to go abroad to study or switch to non-state or group-operated enterprises. In early January, this reporter met with a major player of this group and, by talking to him, came to understand their main ideas on politics and the economy in China to date.

**The Political Understanding on Elder Statesmen Running the Country**

Their disappointment with Zhao Ziyang is what distresses these advisers most about Chinese politics. At the beginning, they placed great hope on Zhao Ziyang, thinking that they could put their political and economic reform ideas into practice through his power and influence. To date, however, they realize Zhao Ziyang is operating under severe constraints, both objective and subjective.

Among the objective constraints are China's traditional political culture and the current power structure. The power structure of the CPC is said to be a copy of its Soviet counterpart. But look more closely and you will see that apart from one-party dictatorship and grassroots organizations, tools of absolute control common to both China and the Soviet Union, there is one striking difference between the two countries. In the Communist Party of the Soviet Union [CPSU], position and power basically go together. In other words, he who becomes the general secretary of the Central Committee of the CPSU will wield supreme power. Not so with the CPC, where

the nominal supreme leader is often not the most powerful man. This applies to Hu Yaobang as well as Zhao Ziyang. After he became the general secretary of the Central Committee of the CPSU, Gorbachev successfully removed the conservative old guard from the committee. In contrast, Hu Yaobang and Zhao Ziyang remained under the control of the elders even after assuming the general secretaryship, technically the highest position. During the Sino-Soviet summit, Gorbachev will not be meeting with the general secretary of the CPC, the president of the PRC, or the premier of the State Council, but an elder statesman who claims to be semi-retired.

This is a question of power structure. Let's now take a closer look at China's political tradition. Zhao Ziyang's gifted young and middle-aged advisers believe that there were few, probably no more than a handful, emperors in Chinese history who exercised real power. Generally speaking, the founder of a dynasty wielded real power, but his successor immediately came under the control of the old guard, who had fought to seize power side by side with the founding emperor. Under most circumstances, each succeeding emperor also came under the control of the elder statesmen and had to tailor his policies to suit their wishes. In effect, the elder statesmen ran the country.

This is what is happening in Communist China right now. As founder of the PRC, Mao Zedong exercised effective power, but his successors, such as Hua Guofeng, Hu Yaobang, and Zhao Ziyang, have all been hamstrung by the elders. Because Deng Xiaoping has less than absolute power, unlike Mao Zedong, and is temperamentally less domineering than Mao Zedong, he is one of several elder statesmen who influence policymaking. His role is that of an arbitrator among the elders.

The elder statesmen usually exercise power this way. After anyone of them has expressed an opinion or given an instruction, others would not demur. Conversely, after an elder has rejected a position, others would not endorse it. This brand of politics by tacit understanding maintains a superficial consensus among the old guard.

China's elder statesmen are Deng Xiaoping, Chen Yun [7115 0061], Yang Shangkun [2799 1424 2492], Li Xiannian [2621 0341 1819], Wang Zhen [3769 7201], Bo Xibo [5631 0001 3134], Song Renqiong [1345 0117 4522], and Peng Zhen [1756 4176], still the same cast who ran the country at the time of the anti-bourgeois liberalization campaign. Although some are ill (Chen Yun) and some are completely retired technically (Peng Zhen), they still rule the country unofficially.

**Secret to Getting Things Done on the Mainland**

The "eight elders" do not take a stand on a major matter casually, not knowing what their colleagues may think about it. They usually wait for a party meeting or other occasion to sound out their colleagues or take their cue

from the two super-elder statesmen, Deng Xiaoping and Chen Yun. A case in point is the Sanmen Gorge project. When none of the elders takes a stand, Zhao Ziyang, Li Peng, and others in lesser positions would not dare stick their necks out and make a decision for fear of getting into trouble if an elder later raises his objection. Zhao Ziyang, for instance, approved the airing of "River Elegy" only to have Wang Zhen castigate it afterward as "national condemnation," which led to its being banned and other endless trouble. If something as minor as the "River Elegy" could cause this much controversy, need we say more about major matters?

Thus those who understand how the political game is played on the mainland all know that the secret to getting things done there is to first secure the consent of an elder. Now let me cite an instance that is just the opposite of the events surrounding the "River Elegy." A couple of years ago, a television station signed a contract with Japan to show a Japanese martial arts TV series "Zi San Si Lang" nationwide. As it turned out, the series was an instant hit in Guangzhou and Shanghai. This got a number of people worried about a possible backlash of opposition from the top echelons of the CPC. Suppose someone suffering from "red eye disease" says something to an elder statesman who, on grounds of nationalism ("How can we let a Japanese swordsman swagger about in front of the Chinese people?"), would then disallow its continued broadcast. Should that happen, there would be no alternative but to break the contract with the Japanese, which would be a serious matter. After "Zi San Si Lang" created a stir in Guangzhou and Shanghai, therefore, the people in charge showed the film to Wang Zhen, who was so captivated by it that he stayed up and watched it continuously for one day and one night. Later he said a couple of nice things about the contents of the show, which was enough to silence any potential opposition to its being aired on television around the nation.

#### **Zhao Ziyang Misses A Golden Opportunity**

The way the elder statesmen run the country not only is a far cry from democracy, but also represents an anomaly in autocratic politics. In traditional Chinese politics, an enlightened monarch wielded real power, which was one of the more desirable variants on autocratic politics. After the founding emperor, would a person of vision and real power emerge at a critical moment? The answer to this question would largely determine whether there would be an enlightened ruler wielding effective power.

In 1975 Deng Xiaoping was entrusted to manage state affairs by Mao Zedong. Since Zhou Enlai was then seriously ill, there was no experienced and competent person other than Deng Xiaoping to clean up the mess left behind by the Cultural Revolution, particularly in the field of foreign affairs. Deng Xiaoping used this opportunity to challenge the Cultural Revolution faction headed by Jiang Qing and Zhang Chunqiao [1728 2504 2890]. Although he was outmaneuvered, it built up

public support for the smashing of the "gang of four" after Mao Zedong died, while earning him high prestige following his 1978 comeback. His boldness, courage, and vision made possible his emergence at a critical juncture and turned him into an enlightened monarch with real power after 1978.

The anti-bourgeois liberalization movement of early 1987 was a golden opportunity for Zhao Ziyang. If Deng Xiaoping was irreplaceable in 1975, so was Zhao Ziyang in early 1987. Had Zhao Ziyang hit out at the conservative left-wing when he was given the important position, resisted the interference by the elder statesmen, and continued Hu Yaobang's liberalization policy, he would probably have emerged as the undisputed leader. Unfortunately he lacked the boldness to exploit this opportunity.

Advisers close to Zhao Ziyang say that he is a very smart man with a sharp mind, quick to grasp others' opinions and suggestions. His pronouncements on internal and external matters, including his answers to reporters' questions, convince us that he is highly intelligent. But he is too smart for his own good: he tends to play safe. During the anti-bourgeois liberalization campaign in 1987, he lacked the nerve to grab the opportunity. Only when Deng Liqun [6772 0500 5028] and others relentlessly pressed on his turf—the economy—did he take an anti-leftist stand.

Such are the subjective conditions that tie Zhao Ziyang's hand, disqualifying him as an "enlightened monarch" wielding real power and preventing him from pushing through the economic and political reform program proposed by his advisers with which he is in general agreement. This is why the young and middle-aged advisers are disappointed with him.

Zhao Ziyang's age determines that he obtained the bulk of his political experience in the 40 years after the PRC was founded. He does not have the revolutionary training of Deng Xiaoping's generation or the courage and insight born of a long revolutionary career. His involvement in 40 years of struggle after the republic was founded sensitized him to the complexity of power struggle and the need to shield himself and avoid showing his abilities too aggressively. As for Li Peng, since all his political experience is post-1949, naturally he is even more worldly wise than Zhao Ziyang.

After four decades of intricate power struggles, the courage, insight, and boldness of Chinese Communist leaders have been declining generation after generation. This is the predominant impression of one middle-aged adviser familiar with the top CPC leadership. However, he is very confident about the coming generation now in their 40's. He thinks that the post-Cultural Revolution generation has a better understanding of Chinese politics, the world situation, and global trends. They also



realize the strengths of Western society. Within 10 years, he says, the older generation will wither away to be succeeded by the new generation. Major political reform will then unfold in China.

#### **Denationalization Provides a Way Out of the Economic Impasse**

Turning to the economy, the adviser believes that nobody in the top leadership in the CPC, not Deng Xiaoping, Zhao Ziyang, or Li Peng, has a cure for the ills besetting economic reform in China, a cure that treats the underlying disease as well as the symptoms. What they have been doing is basically treating the symptoms but not the disease. Once a reform policy gets into trouble, they beat a retreat, at the same time trying to undo the damage that has been done.

The thrust of economic reform in China, he argues, is misdirected. Price reform is bound to fail in a socialist nation based on ownership of the whole people. The reason is this. The official who puts products on the market is not the real owner of the products. Their sale prices have no bearing on his direct interests, which instead are tied in with the personal interests of those officials who control the transfer process. Thus the price of a product on the market does not wholly reflect the laws of the market. In short, if the players on the market are people other than the owners of the products or their agent, the divorce between market supply and demand, on the one hand, and production, on the other, cannot be brought to an end, nor can the old system be dismantled.

It is now increasingly clear what the crux of economic reform in China is: ownership. There is hope for the Chinese economy only if we end state ownership. The idea of privatization remains unacceptable to many people in power, but denationalization should prove more palatable.

One approach to denationalization is to gradually expand the group-owned sector of the economy. The Stone Company, Kanghua Company, Zhongxin Company, and Guangda Company are all group-owned, not directly owned by the state. Regardless of whether a group-owned company is well-run or mismanaged, its purpose is to make money for the group. Its biggest difference from a state enterprise is its freedom from control by a rigid state system that benefits nobody. Instead of following state regulations, group-owned enterprises, including township and town enterprises, are free to operate in accordance with economic principles in determining internal rewards and punishments and appointing and dismissing personnel. Corruption is inevitable, of course, even within group-owned enterprises, in the same way that corruption exists in large corporations in the West. But since the functioning of such an enterprise remains largely guided by profit-seeking for the group, it must comply with economic principles in anything it does. For instance, the manager of a group-owned enterprise may earn some commission

on the import of a foreign car. But the import price cannot exceed what the car sells for on the world market. Also, the car must be sold at home at a price that will yield a profit. This transaction is different from the corruption in state enterprises where people abuse their office for personal gain by jacking up import prices and taking bribes on the side, the consequence of which is that the state suffers losses.

Apart from expanding the group-owned sector of the economy, we need to greatly increase enterprises that are nominally owned by the whole people but are actually run by individuals. Then there is the share-holding system. The current share-holding system allows employees to own shares, which, however, are not transferable. This brand of "people's capitalism" is in decline in the West and has also failed to stimulate production in Yugoslavia. The share-holding system should be changed to make it possible for shares to be transferred.

The shift toward denationalization, which takes a variety of forms, does not seem to be vulnerable to setbacks in economic reform because the entire society is moving in that direction. During this process, the children of senior cadres will use their special privileges to occupy key positions in some group-owned enterprises. But even as they line their own pockets, they contribute to the process. In this they are little different from the offspring of the aristocracy who used their privileged position to become a new class of capitalists in the formative days of capitalism.

Some people overseas with national interests in mind are quite critical of the fact that children of senior cadres have been able to take up important positions in group-owned enterprises because of their connections. This adviser, however, points out that nothing will work in China today if it is driven solely by national concern and not motivated by personal or group interests.

How long will the process of denationalization take in China? Probably not overnight. A non-conservative estimate is 10 years, which is also the amount of time the process of political transformation is expected to take.

#### **Only One Adherence Will Remain**

What will political and economic transformation in China look like in 10 years' time?

The adviser says that of the "four adherences," probably only one—adherence to the leadership of the CPC—would survive. In any case, the so-called Chinese Communist Party will be a misnomer then since its goal will no longer be the common ownership of property. Rather, it will only represent a political force, no more, no less.

### Central Propaganda Department Ostracizes Dissident Theorists

40050280b Hong Kong CHIUSHIH NIENTAI [THE NINETIES] in Chinese No 227, Feb 89 pp 65-67

[Article by Lin Wei 2651 5898: "China's Theoretical Community In Flux As It Searches for New Theoretical Guidance"]

[Text] To commemorate a historic conference, the Central Propaganda Department convened a theory seminar. "Heretics" were excluded and given special treatment.

In defiance of the Central Propaganda Department, the theoretical community held its own symposium and wrote articles to continue its own exploration.

To extricate ourselves from the economic impasse, we must reform the ownership system. However, our hands are tied by the "four cardinal principles."

The political and economic crises have proved intractable and the theoretical community is in turmoil. An unofficial exponent of Deng Xiaoping thought has emerged.

As economic structural reform came under inflationary pressures, the government had no choice but to slow down the pace of reform, rectify the economic climate and restore economic order. What is being played out at the economic front is a struggle between reform and retreat, which inevitably is reflected in the ideological sphere. Already some people are calling for an ideological counterattack and rectification. In this context, the theory seminar held in Beijing late last year to mark the 10th anniversary of the 3d Plenum of the 11th CPC Central Committee was instructional.

### People Who Dare to Speak Up and Write Are Ostracized

The theory seminar, which took place from 18 to 22 December last year, was jointly organized by the Propaganda Department of the CPC Central Committee, the Central Party School, and the Chinese Academy of Social Sciences [CASS]. Led by the Central Propaganda Department, the seminar not surprisingly was less concerned with theory and more concerned with party spirit. Besides, the people in charge of the Central Party School and CASS are still quite conservative in their thinking and have thus far contributed nothing to theoretical liberation.

The 3d Plenary Session of the 11th CPC Central Committee of late 1978 was a landmark conference in the history of the CPC, of which it is the most important turning point. Thus it stood to reason that the theory seminar, organized by none other than the party itself, should be a grand and spectacular event. In fact, there was little substance to it. It is true that just about every

top party leader was present at the opening ceremony. The five standing committee members of the Politburo—Zhao Ziyang, Li Peng, Qiao Shi [0829 4258], Hu Qili [5170 0796 4539], and Yao Yilin [1202 0181 2651]—were there, as were President Yang Shangkun [2799 1424 2492] and Wan Li [5502 6849], chairman of the standing committee of the National People's Congress. Yet XINHUA NEWS AGENCY ignored it totally, apart from reporting its opening and closing ceremonies, reprinting the speech delivered by General Secretary Zhao Ziyang, and carrying part of the address by Li Yining [0632 0110 1337], a Beijing University professor. There was an air of apathy surrounding the seminar. Thus, although the gathering was billed as a "seminar," little in-depth discussion took place, much of it perfunctory.

Zhao Ziyang said in his speech, "New problems crop up endlessly, demanding solution. Some people call this the 'crisis' of Marxism. Actually, as far as Marxism is concerned, challenge is the catalyst for growth." This shows that the official ideology has reached an impasse.

The seminar on the whole was "uneventful," to put it mildly, or "regressive," if stronger language be used. The ultra-leftists were hard at work and showed signs of staging a comeback. They were able to prevail thanks to a conniving Central Propaganda Department.

It takes only a look at the names removed from the list of participants to make out the organizers' intentions. Sun Changjiang [1327 7022 3068] and Zhang Xianyang [1728 7359 2254], both young theorists who have made a major contribution to the "only practice is the criterion of truth" debate, were not invited. Nor were political theoretician Yan Jiaqi [0917 1367 0366] and jurist Yu Haocheng [0060 3685 2052], who have gained a reputation in recent years for having the courage to speak up. But the strongest contrast can be found in the treatment of Xing Bisi [6717 6321 1835] and Li Honglin [2621 3163 2651], both famous theorists in the early days of reform. During the "anti-spiritual pollution" campaign, Xing Bisi "accepted amnesty and served the authorities" while Li Honglin adhered to the truth. Thus one was invited and the other was snubbed.

### Specially Invited Representatives as "Heretics"

Apart from 200 official representatives, the organizers cooked up a farce over "specially invited representatives." According to the despatch issued by the China News Agency, the mouthpiece of the CPC, "fifty people, including Xue Muqiao [5641 2550 0294], Yu Guangyuan [0060 0342 6678], Du Runsheng [2609 3387 3932], Ma Hong [7456 3163], Li Yining, Wang Ruoshui [3769 5387 3055], Zhao Fusan [6392 1788 0003], Fei Xiaotong [6316 1321 6639], Zhang Youyu [1728 0645 3342], Qian Xuesen [6929 1331 2773], Tong Dalin [4547 1129 2651], Huan Xiang [1360 6763], and Wang Yuanhua [3769 0337 0553] were specially invited to

attend because they are theoretical and academic authorities who are highly representative and enjoy a good deal of prestige." However the organizers said at the news conference, "here are 50 specially invited representatives, including comrades with different viewpoints as you can see from the name list." Another document had this to say about the specially invited representatives, "Some comrades have even been criticized and dealt with."

"Different viewpoints," of course, mean "heresy." Even before the seminar opened, they separated heresy from orthodoxy. What was the point of having a seminar then? Clearly the organizers wanted to prove that they were "democratic" and tolerant and felt rather smug about it. If this is not "sham socialist democracy," what is?

Who were the representatives of heresy who had been "criticized and dealt with?" Primarily Yu Guangyuan, Wang Ruoshui, and Li Shu [7812 3412], all attacked during the "anti-spiritual pollution" campaign. Apparently the seminar was intended by the organizers to preserve the fruit of that campaign. Li Shu, a historian, passed away on 9 December. He developed a myocardial infarction after he came under attack during the "anti-spiritual pollution campaign" but was still hard at work wrapping up several writing projects in his last days, including "On Total Westernization." One day as he stood up, he felt dizzy and collapsed. He died several days later. Nevertheless, his name was still on the list of specially invited representatives. Unsparing even of the dead, the organizers triumphantly included his name among the "heretics."

Needless to say, the number of people who had been criticized was not small. As a result, it is as if the "specially invited representatives" were entered in "the other register." (As distinct from the regular register, "the other register" was a census book in the Qing Dynasty for listing disreputable persons.) How could people of moral integrity stand for such an insult? So Yu Guangyuan, Wang Ruoshui, and others refused to attend. The ridiculous thing is that when transmitting the "spirit" of the higher authorities, Li Cong [2621 3827], director of the World Economics Institute of CASS, said, "Do not dredge up the past." Yet the organizers themselves pointed out that there were those among the specially invited representatives who had been criticized and dealt with. Now who is dredging up the past?

Moreover, publications at the forefront of reform theory such as SHIJIE JINGJI DAOBAO and JINGJIXUE ZHOUBAO were denied permission to cover the seminar. It is a supreme irony that a seminar that commemorates reform and the open policy resorted to a closed-door policy. Su Shaozhi [5685 4801 2535], the well-known theorist, delivered a hard-hitting speech at a small-group session during the seminar. After SHIJIE

JINGJI DAOBAO reprinted the speech, the departments concerned launched "an investigation." Is this a case of "biding one's time to take revenge?"

Twenty two articles received the "outstanding writing award" at the seminar. While Liu Zaifu [0491 0375 1788], the literary critic, was one of the winners, not a single proponent of ownership reform won in the economic category. Maybe "ownership" is too sensitive a topic.

### Defying the Central Propaganda Department

Still the rank-and-file theoretical worker has not knuckled under the repressive ways of theoretical hooligans. He resists them in a variety of ways and continues to chart new paths.

Interestingly enough, less than a week after the theory seminar closed, Beijing convened a "cultural development symposium for young and middle-aged scholars in the capital," which was attended by Yu Guangyuan, Xiang Nan [7309 0589], Su Shaozhi, Zhu Houze [2612 0624 3419], Sun Changjiang, Zhang Xianyang, Wu Mingyu [0702 2494 3842], Li Rui [2621 6904], and Shao Yanxiang [6730 3601 4382]. Most of these people had been criticized and dealt with during the anti-spiritual pollution and anti-bourgeois liberalization campaigns, including some who were deliberately excluded from the theory seminar by the Central Propaganda Department, thus giving the symposium an air of defiance. "The east wind is blowing; the war drum is beating. Nobody is afraid of anybody." Obviously Yu Guangyuan, Xiang Nan, Wang Ruoshui, and Li Rui are not young or middle-aged; they were the specially invited representatives of the young and the middle-aged.

During the theory seminar organized by the Propaganda Department, GUANGMING RIBAO printed a lengthy commentator's article: "What do we make of the development of a socialist commodity economy? How should we treat science and technology as the first productive force? Should we introduce socialist democratic politics in China?" These are a series of new, more profound questions that the Chinese people will face as they liberate their thinking. After discussing the relations between the modern commodity economy and democratic politics, the article goes on, "The idea that says modernization is separate from democratization and that the former can be achieved even without the latter is not consistent with the realities in China." The article also calls for the eradication of the influence of the deep-seated natural economic tradition and feudal autocracy, together with their historical burden on the people's thinking and the gradual establishment of democratic concepts. Clearly, the representatives of the small-scale peasant (natural) economy and feudal autocracy are precisely those peasant revolutionaries who have fallen far behind modern society ideologically and who unworthily occupy a place in the leadership of the CPC.

### Finding A Way Out for Economic Reform

The economic community has reacted sharply to the severe setbacks in economic reform. Deng Xiaoping has said repeatedly that Chinese reformers "are crossing the river by groping for pieces of rock, one step at a time," apparently ignoring the function of theory. Economists, on the other hand, want to nail down the causes of the setbacks and look for solutions.

Zhang Bingjiu [1728 3521 0046], a young economist at Beijing University, argues that economic structural reform boils down to changes in the property ownership system, a point long recognized by the countrymen. Now that reform has entered a "danger zone" from which one can only go forward and not retreat, we have no choice but to face up to this issue and look for a solution in earnest. During the past decade we crossed the river by groping for rocks. Today some people say we have reached a "deep water zone where there are no rocks to grope." Not true. It is clear that we still could reach for one more piece of rock—the establishment of a property ownership system. If we step on it, we can reach the other shore.

Many Chinese economists have called for the establishment of a private ownership system. But in view of the barrier posed by the "four cardinal principles," the scholars have to think of ways to get around it.

Hua Sheng [5478 3932] and Zhang Xuejun [1728 1331 6511], both young scholars at the Economics Institute of the CASS, and Luo Xiaopeng [5012 1420 2590], a young scholar with the Rural Policy Research Center of the CPC Central Committee, summed up the decade of reform in a lengthy article titled, "Review, Retrospection, and Prospects," published in Issues 9, 11, and 12 of JINGJI YANJIU last year. In Section 2, "Retrospection," they wrote, "In the world today, there is considerable economic and social stability in those socialist nations undergoing no or little reform. In contrast, countries that are in the midst of true reform are invariably caught in a dilemma. This proves that the traditional brand of socialism is an internally balanced equilibrium... If we attack this system in whatever direction with sufficient force, we will inevitably plunge the existing order into chaos, setting in motion a chain of reactions. The fact that socialist countries in the forefront of reform have spent the last few decades repeating the stop-go pattern of reform, interspersed with retreats, provides ample evidence that socialist reform within the original mold or framework has reached the end of the road. To put it more accurately, socialist reform has become a vicious circle from which there is no escape."

Then what is to be done? The article proposes that we "rethink socialism" and "reestablish a worker's personal ownership system on the basis of the common ownership by means of production."

Many in China's economic community hold similar innovative ideas. Their goal is to get around the "four cardinal principles" so as to secure the endorsement of those power-holders whose ideas have been frozen in time. One must say this is a tragedy in China's theoretical community.

In the opinion of the Mid-Term Economic Reform Planning Research Group of the Development Research Center of the State Council, there is no getting around price reform. Nor should it be delayed. Price reform has a pivotal place in structural reform and economic development. It must proceed in tandem with tax reform, fiscal reform, banking reform, and foreign and domestic trade reform. It should also be coordinated with the clarification of enterprise property rights and enterprise reform as well as major push to organize a market.

Between the share-holding system and the contract system, the Mid-Term Economic Reform Planning Research Group is inclined toward the former, arguing that "although the enterprise contract system enhances the driving force of an enterprise, it is basically part of the old system. Besides, it encourages myopic behavior and is an incentive for enterprises to jack up prices in search of profits." The people in power, on the other hand, are partial to the contract system. Not only do they ascribe to the output-related system of contracted responsibility, whose unit is the family, a "robust" vitality, but they also believe all enterprises need is some "improvement."

### Deng Xiaoping Thought: An Unofficial Exposition

Perhaps because the theoretical community in China today is still in a confused state where "nobody is afraid of anybody," perhaps out of a desire to build up an authoritative body of thought in opposition to traditional Marxism-Leninism and Mao Zedong Thought, some people are trying to put together Deng Xiaoping Thought. The leading exponent is a young scholar named Wu Jiexiang [0702 4471 4382], a graduate of Beijing University who now works in the general office of the CPC Central Committee. His work, "Deng Xiaoping: Thought and Practice," was published by Hunan Renmin Chubanshe last December. He has been interviewed in Shanghai's SHIJIE JINGJI DAOBAO, which also reprinted excerpts of his writings on Deng Xiaoping's "cat analogy" ("It does not matter whether the cat is black or white; as long as it catches mice, it is a good cat") and "groping theory" (crossing the river by groping for rocks), among others.

That a scholar rather than a high-ranking party official takes the lead in expounding Deng Xiaoping's ideas, it must be admitted, represents a major improvement upon the Mao Zedong era. In his interview with SHIJIE JINGJI DAOBAO, Wu Jiexiang said, "First, I consider Deng Xiaoping the founder of modernization thought in China. Second, I believe we should have a correct attitude toward leaders. In the past, we either followed a

leader blindly or opposed him blindly. Seldom was our attitude a scientific one of respect and understanding. Besides, Chinese reform needs profound theoretical guidance. What is needed now is an ideology that combines Marxism with the immediate and long-term interests of the entire people and that coincides with modernization thinking. We cannot ignore Deng Xiaoping's pioneer thinking in this area."

Wu Jiayang speaks highly of the "cat analogy," which he thinks sums up Deng Xiaoping's entire philosophy. He writes in his book, "The 'cat theory' has a logic that is simple, direct, and irresistible. If we have really decided that our objective is to catch mice (if we have decided we are not like those well-heeled ladies who want cats with pretty hair as pets), then we need not be choosy when it comes to the cat's color and the sound it makes. After we have set a goal, we should examine as many alternative methods as possible and select one that is most effective in achieving our goal... This is a revolution in philosophy, a shift from 'fatalism' to 'the theory of choice.'"

Based on this theory, Chinese economic reformers need not quibble over whether a policy is "capitalist" or "socialist." As long as something works, it should be adopted. And when something does not work, it should be discarded at once. Unfortunately China today is stuck with socialism, which is a fatalistic idea. However, we should also realize that the "cat analogy" was put forward in the early 1960's and came under fire during the Cultural Revolution. Since then he has never referred to it again and actually seems to avoid talking about it,

although he was guided by it in some of the things he has done. That Deng Xiaoping practices this theory while refraining from vocalizing it shows he lacks the courage to theorize. As a result, it falls to somebody else to articulate, expound, and develop his ideas. Of course, Wu Jiayang himself recognizes that there are limits to what a historical figure can do. "We cannot ask too much of the generation of founding fathers. Instead we should more often think of our own responsibility."

Wu Jiayang's viewpoints are very clear. When the reporter from SHIJIE JINGJI DAOBAO asked him what could be done to overcome the current economic and political crises, he said, "Politically we must liberate ourselves ideologically and break free from personal dependent relations. Economically, we can blame every disaster on a fuzzy ownership system. Everybody wonders whether tomorrow will really come, so they eat, drink, and make money to their hearts' content today because there is no property security. The distribution of national income is biased in favor of consumption funds. Less and less wealth and capital are being spent on production, while more and more is going toward consumption. It would be odd indeed if prices do not skyrocket under these circumstances. The biggest problem right now is the lack of security for private property. Also, public property rights are ill-defined. These two issues are central to solving the crisis. They need to be safeguarded by ideological argument." Apparently these are also the two major tasks for the theoretical community, but given the current political climate on the mainland, the community still finds it hard to speak its mind freely and establish a new body of thought.

## NATIONAL AFFAIRS, POLICY

### Privatization of State Assets-Recommendations to Chinese Leaders

40060388 Shanghai SHIJIE JINGJI DAOBAO in Chinese 27 Feb 89 p 15

[Article by Li Yunqi 2621 6663 1142, Zhang Daogen 1728 6670 2704, Fang Xinghai 2455 2502 3189, Zhang Rui 1728 6904, Lin Weimeng 2651 6672 5492, Liu Yongchuan 0491 3057 1557, Zhou Xueguang 0719 7185 0342, Li Xiaoyang 2621 0879 7122, Cai Mingjie 5591 0682 2638, Zhao Wanlong 6392 8001 7893 and Yu Bin 0060 3453, of Stanford University: "Privatization of State-Owned Assets—Trends and Options in China's Economic Reform; Recommendations to China's Leaders"]

[Text] *Editor's Note: These "recommendations" were written by several Chinese scholars and doctoral students at Stanford University, following many discussions and repeated revisions. While they were writing, these scholars exchanged views with U.S. professors M. Friedman, R. McKinnon and L. Lau, the West German economist H. Fischer, and the Yugoslavian and South Korean scholars D. Djuki and C. K. S. Lho. It is based on their nation's experiences, serious study of the realities of China and proposed theoretical reforms, and is intended to achieve a program for the privatization of China's state-owned assets.*

China has now gone through 10 years of reform, which has brought vitality to the nation, and hope to its people. This reform, regarded by the West as the world's most vital, has now entered a strategic, transitional phase. China can expect that if China is successful, it will provide a model which can be used for the entire socialist reform movement; if China is powerful, then Asia can truly be powerful, and the Asian-Pacific region's various powers will be in harmony. China faces two difficulties. In recent years, the focus China has chosen for reform has fluctuated between enterprise reform and price reform, which is too much to handle at once; macroeconomic policy has been elastic as to the choice, triggering inflation or short periods of production decline. China faces choices. Either by the self-contradictory repetition with an unchanging focus, which perpetuates the difficulties in reform, and could even permit the economy's illnesses to reduce China to the fourth world; or through its own economic development, China could draw out a completely new theory which accords with China's realities, resolutely laying the foundation for even newer economic movement, making China a newly industrialized nation by the end of this century. We think that China should choose the road of theoretical reform, casting aside the difficulties and vigorously developing the nation. Our program calls for the total privatization of state-owned assets in order to thoroughly transform the microeconomic foundation.

### The Inevitable and the Feasible.

Healthy movement of the economy and society relies chiefly on two factors: motivation and coordination. If one of these two is lacking, it is a certainty that society and the economy will lose its rate of effectiveness or sink into a state of chaos. In economic planning, prior to reform, the enterprise was the basic unit of the economy and society. Inevitably, there was a strict adherence to the plan that was directed, regardless of whether an enterprise was managed well or poorly, or what its self interest was. Enterprises lacked motivation. Moreover, national planning often failed to reflect changes in realistic needs, which led to a loss of economic purpose. Officially, the economic reforms of the past 7 to 9 years were intended to overcome the drawbacks in the old system, namely its lack of motivation and coordination. Attempts to reform enterprises ranged from expanding the development of their power to act on their own initiative, to giving enterprise contracts to individuals or collectives, so that management or labor were increasingly motivated. The great effort to establish a market, from expanding the market adjustment scope of development to letting the market guide the enterprises, expedites China's market for commodities, investment, and labor force. At this late hour, although there has been considerable progress in reform, the abuses of the old system have still not been eradicated. With state ownership continuing to exist, property relationships are still muddled. The important enterprise policy decisions of how to select enterprise personnel, enterprise annexation and important groups, can only depend on administrative departments. Another aspect to consider is the economy's lack of coordination, which not only gives rise to indecision, but also to runaway inflation. Among the basic reasons are that governments at all levels still hold firmly to the enterprises, and the enterprises still have no way to free themselves from their direct administrative dependence on various levels of government. Loosening up prices has not yet stimulated supply increases or decreased inflationary pressures; on the contrary, they have used their powers to control the markets and drive up prices. The facts prove that state-owned enterprises cannot operate according to the pattern of the marketplace, but only according to the authorities. Obviously, when we consider the inertia produced through striving to reform the old ownership system, we must cry out that it is a historical necessity that the system of ownership be changed.

We realize that changing the system of ownership does not just have historical necessity, it is a current possibility. Among the government and the public at all levels, among Chinese people both at home and abroad, there is now steadily emerging a kind of public knowledge: If the system of ownership is not changed, then reform will have nowhere to go, and the economy cannot thrive; if the system is unchanged, and the will of the people wanes, society will not be in accord with the people. At the same time, the results of 10 years of reform has in various ways foreshadowed change in the ownership

system; the commodity economy view is deep among the masses, and various economic configurations have developed, various kinds of markets are in their embryonic stage, and various managerial occupations have emerged. If politics follows the people's will, leading through influence, the spring tide of ownership reform must arrive in a torrent.

### Objective and Comparisons

Our objective in reforming the system of ownership is to bring about the privatization of state-owned assets. The economic connotation of the so-called privatization of assets is to move progressively to outstanding individual laborers directly owning production materials, taking on the burden of property. Under the stipulations of state laws and decrees regarding income and consumption, there can be complete and smooth economic results. Unlike the system of contract responsibility currently practiced, privatization of assets is not entangled with the separation of ownership rights and operational rights, but will basically alter the ownership rights model, making state-owned enterprise assets actually in the possession of the responsible party, both legally and economically.

Unlike privatization in the Western nations, privatization of assets here does not consist of transferring the state's assets to a private party; rather, it is to take assets which originally belonged to the people from the state-ownership model and transform them into the model of direct ownership by individuals.

Unlike the stock system, this privatization of assets does not stress linking the state, the collective, and the individual in joint enterprise ownership, letting the individual's stock place limits on the enterprise's actions. Moreover, it acknowledges that it is chiefly through individual ownership of production materials, having the rights of ownership, fostering innumerable colonies that possess their own assets and have the dual identities of entrepreneur and owner.

Naturally, China's privatization of assets is an exceedingly complicated system project, requiring the comparison of many plans, and selection of the best. As we see it, it seems that there are at least three kinds of plans which can be studied for implementation.

1. Start with an equal division of state-owned assets. According to region or industry, carry out an appraisal of state-owned assets, and then by the stock model divide it among the individuals in that region or that industry. Form a stock market through the process of stock transfer and sales, form a board of directors through the process of amassing stock, and finally begin to establish a new system for ownership of assets.

2. Start with development of the private economy we already have, relaxing policies, standardize directives, create an infrastructure, create a good market and the

legal environment for developing the private economy, which will turn through its developing strength progressively infiltrate to where it will supplant most of the state-owned economy.

3. Start with encouraging savings. Banks can adopt special policies which will allow the people to progressively amass start-up capital sufficient to purchase state-owned property. Banks stipulate that if depositors' accounts reach a certain limit within a certain time, then the depositors may obtain bank loans, and on the installment plan can purchase personal property such as houses. After a certain period of time, they could through this mortgage obtain a partial loan enabling them to purchase state-owned enterprise property, and progressively achieve the privatization of state-owned enterprise properties.

We realize that while each of the three plans has its pros and cons, the first plan seems simple and quick, but in practice it would have two insoluble problems: 1) It is difficult to evaluate the worth of the entire state-owned assets, making it impossible to conduct an equitable allocation; 2) Free allocation of assets makes it very difficult to engender in the profiting parties a consciousness of the main body of the property, and building this kind of restraint into the ownership is very far from what was originally intended.

While the second kind of plan avoids the first plan's operational difficulty and free inequitable allocation, it could cause some societal upheaval. However, at present the private economy's worth is less than 1 percent of the total worth of our enterprises, which will let it develop into the main body of the economy's need for an overly long period of time. Until the state ownership system is fundamentally reformed, the national economy will just drag along. Therefore, this plan does not merit becoming the principal means of privatizing property, but can only serve as a supplementary measure.

It seems that the third plan might overcome the insufficiencies of the first and second plans. Operationally, there not only is historical evidence of its success (the post-war West German model), but it also conforms to China's present realities.

### Options and Recommendations

We think that China should select the third plan to push the complete privatization of assets, because:

1. This plan gives relatively equal opportunity to the people; whoever can conscientiously reduce their individual consumption for a short period of time can become an enterprise operator, and can travel the road to wealth.



2. This plan encourages people to initially have a bit of their own property as a turning point, so that they can begin to build the foundations for affording enterprise purchase, the essential model for having a fairly strong property binding system.

3. This plan leads to bank participation, essential for greatly accelerating the process of asset privatization, and raises the rate at which property relationships are built up and perfected, decreasing the friction resulting from systemic change, and cutting down on the agonies resulting from that change.

4. Putting this plan into effect can stimulate the rapid and stable increase in savings deposits, impelling the pluralization of individual investment, and weaken the pressures of consumption appreciation. It will greatly decrease the flood of too much currency in circulation, progressively cause the current inflation to subside, and create the necessary environment for structuring prices.

In brief, this plan not only can resolve the extremely urgent inflation facing us, but can also basically lay the foundation for an even newer system. It will bring China's economy out of its dilemma and move it into a cycle of excellence.

Naturally, looked at overall, China's property privatization process cannot be accomplished in one step; it demands a progressive, evolutionary process. Our recommendations are:

First, from small to large enterprises gradually advance the privatization of assets. The present China personal savings account and cash on hand has reached about 40 billion total, and within the next 2 years the government can first sell a group of small-scale enterprises; while at the same time banks also provide only a limited number of mortgage loans, so that individuals can buy small enterprises blend funds. Moreover, it would give preference to those loan applicants who have received a standard education in management and economics. Only in this way will a great many outstanding people be transferred continuously from government departments to individual departments. After some years, a stratum of new entrepreneurs will have formed. Those entrepreneurs who have from practice demonstrated that they possess cultural knowledge and can compete successfully in the marketplace will be eligible for large loans, enabling them to partially or wholly buy large- and medium-sized enterprises.

Second, from business to industry to progressively carry out the privatization of assets. According to reasons which range from the simple to the complex, commercial enterprises' fixed capital generally is less than that of industrial enterprises, the technology barriers for individuals entering or withdrawing from commercial enterprises are far smaller than they are for industrial enterprises, thereby making it even easier to advance

privatization. Moreover, after privatization, full business competition will go forward from this, with relatively little impact on society, regardless of whether their production is superior or inferior. It is especially notable that commercial privatization of property will basically overcome the phenomenon of corruption in commercial activities. Looked at from current conditions, the corruption in business is far more pressing than corruption in industry, with official business often done according to how much of a bribe is paid, and not according to the quality of goods purchased. This has led to bribing the inferior as well as the superior, so that inferior products flood the market, and worsen the resources deployment situation. To take the lead in advancing commercial enterprise group privatization of assets, it will be necessary to stress that the business's profits are the objective, to clarify property rights as the basis for completely new business groups, and further the betterment of resource deployment.

Third, from east to west and from south to north carry out, in proper order, the privatization of assets. The level of economic development in China progressively decreases as one goes from the east to the west and from the south to the north. The commodity economies of the east and the south are developed to a far greater degree in foreign-oriented economic endeavors than are those of the west and north. The commodity economy consciousness of the people in the east and south, in their moral support for privatization of assets, and in their assets management level, makes it even easier to put privatization into effect. Next, the east and the south have begun to progressively advance the privatization of assets and implementation of the strategic development of China's coastal regions' foreign-oriented economies, complementing one another and progressing together. The implementation of the strategic development of the coastal areas has not been done at the same time as the privatization of assets, making it easy to lose the micro-economic structure's deep level basis, and therefore making it genuinely difficult for China's economy to really climb to the ranks of competitors in the international marketplace, initiating change in the system of organization. It is especially the case that a certain amount of individual funds accumulated are an important condition for privatization of state-owned assets. The income of people in the east and south is much greater than that of people in other regions. Statistical data shows that more than 200,000 individual enterprises and over 1 million hired workers are concentrated in the eastern and southern regions, which improves the favorable conditions for privatization of assets.

When people raise this kind of query, the privatization of state-owned assets also requires accurate property appraisals as a prerequisite. However, when market mechanisms are imperfect, property values are difficult to appraise accurately, and there is no way to put privatization into effect. We realize that the sale of an individual enterprise does not carry the same problems



as estimating the value and equal distribution of property as a whole. But this process can lead to public competitive auctions for enterprise assets, forming natural mechanisms for market appraisals. The process for privatization itself is also the process for forming market mechanisms.

People still can wonder how many years must pass until individuals can afford to purchase such enormous properties as large- and medium-sized state-owned enterprises, thereby accomplishing the privatization of assets. We realize that it is not actually necessary for all large- and medium-sized enterprises to be privatized. Through the shift of the greater part of large- and medium-sized enterprises' state-owned assets to only those who receive profits from holding preferred stock, while surplus common stock is sold to individuals, individual property rights can conveniently form individual a firm degree of property rights, and quickly complete the privatization of state-owned assets. Moreover, our research shows that without requiring the privatization of state-owned industrial properties, 5 to 60 percent of state-owned industries could be privatized in a very short time, providing the basis for completely altering our economic movement, and bring into full play the market mechanisms' function.

Perhaps people also worry that privatization could lead to a division into the two extremes of massive unemployment and great wealth, bringing on political risks and social upheaval. We believe that if the government adopts the correct policies, it can completely avoid this possible consequence. Along with direct state ownership rights and the accompanying enterprises, there has been a substantial weakening and diminishment of its management powers. The government has also vigorously studied and resolved such problems as the training of labor, training for job-seeking, job security, social welfare, etc., which make the societal costs of privatization as low as possible. The government could also promulgate special tax laws and accompanying measures that encourage individuals to invest their income, limiting the consumption level of people with high incomes. The economy of South Korea took off when this was done in that country, and China could draw upon their considerable experience.

To sum up, we sincerely believe that if the Chinese government would promptly make the bold decision to totally push for the privatization of state property, China's appearance would take on an entirely new look.

#### **Noted Economists View Capital Accumulation, Production Structure**

40060495 Beijing JINGJIXUE ZHOUBAO in Chinese  
2 Apr 89 p 2

[Article by Tian Yuan 3944 3293, Ma Jiantang 7456 1696 1016 and Wang Yukun 3769 5148 3824, of the State Council Developmental Research Center, Study Group on Controlling Inflation: "Accumulation, Production Structure, and Reform of the Economy"]

[Text] Abstract: The structural changes of the past several years have taken place against the larger background of reform of the economic system. The failure of the enterprise structure and the government's difficulties in adjust-

ing the overall enterprise structure, are both essentially due to the fact that after dispersal of the national revenue there was no start made on establishing the means for appropriate improvement of the enterprise structure.

#### **Reshape the National Income Distribution Structure**

Reform of the economic system, especially of the financial system, and reform of the enterprise organizational system and development of those parts of the economic system which are not state-owned, have caused many great changes in the national revenue distribution structure. It is basically characterized by the fact that the state's revenue is rapidly declining as a proportion of the national revenue, and the portion of the national revenue which comes from enterprise income (after taxes), especially individual income, has risen considerably.

In the national revenue distribution structure, the state's share has decreased while that of enterprises and individuals has increased. Some of this is the inevitable result of economic reform, such as developing multiple forms of economic components, and especially the development of the private economy. This confirms that it can be accompanied by increases in individual income, and that enterprise contracts can be accompanied by raises in the actual proportion of enterprise income. On the other hand, some of this resulted from inadequacies: Within the enterprises themselves there is still no good way to measure income. This has resulted in an illogical share for enterprises, with a situation in which wages, prizes, subsidies and in-kind material benefits commonly lead to workers' individual incomes unceasingly eroding profits. The outcome of this has been that too much of the national income has been shifted to individual incomes. In the period 1984-1987, the average proportion of the GNP which went for individual incomes was 78.1 percent, higher even than the level for prosperous foreign nations.

At the same time that the state's portion of national revenue was steadily declining, the central authorities gave localities the right to make profits, and extended major fiscal responsibility to them, especially in recent years. This caused the state's budgeted revenue to again decline as a portion of the total. Estimates are that this was 37 percent in 1985 and approximately 30 percent in 1987. In this way, the central authorities' income has placed a two-fold extrusion on both the individual's income and localities budgeted revenue.

Clearly, structural reform of the Chinese people's income calls for going progressively from the concentrated income setup in which public financial income is dominant, to the dispersed setup in which individual income is dominant, and from a centrally dominant economy to one which is pluralized.

### **Problems Resulting From Revenue Dispersal**

To make dispersal of revenue allocation the chief characteristic for changing the structure of people's income allocation while making enterprise structure more rational is not necessarily a contradiction. The key point is that the principal part of the revenue be better employed regardless of whether it is rational, or whether it is sufficient for establishing a set of new mechanisms for amassing capital which are suitable for dispersing revenue. Moreover, it steers most of the dispersed revenue to the part which needs it the most. However, during several years of economic reform the national revenue allocation structure has moved from a concentrated model to a dispersed one, while being unable to set up a corresponding system and mechanisms. The bulk of the various categories of revenue has without exception been used for various processes' unhealthy tendencies.

### **As the Government's Tendency To Accumulate Declines, the Tendency To Consume Increases.**

Prior to 1978, the proportion of state expenditures which went for economic construction was about 70 percent annually. After we entered the 1980s, this proportion declined sharply, to less than 50 percent in 1985, to under 40 percent in 1987, and to about 35 percent in 1988. The accumulation of revenue from manufacturing has tended to decline, for two main reasons. One is that non-manufacturing expenditures, such as rigid expenditures for administrative endeavors, have been very large; the other reason is the decline in the state's revenue as a proportion of national revenue. In a situation where non-manufacturing expenditures are very inflexible, the volume of revenue declines, naturally leading to revenue accumulation also tending to decline. It is only natural that the tendency to increased revenue consumption is very closely related to the sharp increase in the social groups' ability to buy and the tendency towards extravagance.

### **Enterprise Consumption Tends To Be Too High, Personal Accumulation Tends To Be Too Low**

Enterprise self-accumulation tendencies which had increased along with the volume of enterprise revenue are now continuously declining, even to the point of bearing an accumulation. In 1986, the first time in which enterprises were included in national revenue distributions, their proportion had increased by 9.7 percentage points over 1978, while its proportion of the national revenue which it could control dropped in 1986 to 1 percentage point below that of 1978.

The most fundamental reason for the emergence of this trend is that the enterprise allocation has not been carried out logically. Reform of the current enterprise system includes reform of the contract system which has been unable to resolve the contradiction of basing workers' benefits on managers' benefits and basing managers'

benefits on those of owners, which has led to the erosion of wages relative to profits. Estimates are that in the entire 1987 accumulation, the enterprise share amounted to 58 billion.

### **Average Household Consumption Tends To Be High, Accumulation Rate Tends To Be Low**

Along with a rise in the amount of national revenue which individuals can control, accumulation of funds by individuals (manifested chiefly in household savings deposits) has also begun to increase as a part of the entire volume of accumulated revenue. However, due to the individual accumulation rate being far lower than that of the government's, changes in the national revenue allocation structure has led to a decline in accumulation in recent years.

This was because China's household income level tends to be low. If one looks at the entire situation, it is seen that allocations tend to be fairly equitable, so the equitable consumption tends to be very high. This way, after dispersal of revenue, the dispersed revenue in the majority of households will be consumed. This is a lesson which must be kept in mind: when speaking of nations in which the revenue level is a bit low, the revenue's dispersal has to pull down all of society's ability to accumulate funds.

When national revenue allocations are dispersed under conditions in which the average household consumption tends to be high, other than the lowered societal accumulation rate, in China there are also directly or indirectly initiated two other problems:

First, although household deposits tend on the average to be low, because of the sharp drop in the revenue accumulation rate and the accumulation by enterprises themselves tending to be weak, therefore, household deposits become the most important source of accumulated funds. Except for the years 1981 and 1985, financial departments from 1979 to 1987 carried surpluses, while the enterprise sectors' deficits also increased from 563 million to 12.401 billion yuan. The accumulation raised by the household sector in those years increased from 11.79 billion to 105.63 billion. However, due to Chinese household savings deposits for the most part being set aside for purchases, these were consequently extremely sensitive to the market, so that if any sign of trouble appeared, there was a run on household bank accounts, leading to a payment crisis and enterprises facing a critical shortfall. This indicates that national income allocation dispersal carries with it some extremely fragile mechanisms for direct blending of enterprise funds.

Second, China still retains certain welfare benefits (such as free medical care, housing subsidies, payments for food, water and electricity, etc.); in this way at the same time that the national revenue burden is aggravated, we again have a situation in which the household currency

payments structure and the actual consumption structure are out of sync. This makes the continuous increases in income highly concentrated in articles of every day use, especially when buy durable consumer goods are affordable. As a result, local governments are compelled to exert themselves to develop the processing industry for durable consumer goods, thereby exacerbating a deviation from progress in both basic and processing industries.

#### **The Price and Property Rights Systems—the Deep-Seated Reasons for Deviations in Enterprise Structure**

The dispersal of national revenue, and the changes in the principal part of the revenue consumption which tend to be high, do not necessarily worsen the enterprise structure, nor do they necessarily lead to making the enterprise structure worsen to this extent. In these, there are two key links:

First, the distorted pricing system has remained basically unchanged. There cannot be signals given which are sufficient to make the enterprise structure and the commodity structure rational, while leading to basic parity between commodity prices and commodity processing. The price relations between agricultural and non-agricultural products are very illogical, so that they not only place restrictions on national revenue which could be used in production and construction, funds which could form the basis for enterprise and agricultural movement. They moreover induce an excessive flow abroad of agricultural production funds. Revenue investment allocations are like this, as is bank loan flow. This again is the lesson of high prices. After the dispersal of national revenue, with the concentrated revenue allocation model sending appropriate fund movement signals—a plan—under conditions which are no longer valid, we have not been able to promptly and firmly implement price reform, and consequently we have not begun to establish fund guiding signals which are appropriate for dispersal of national revenue.

Second, there has not been effective reform of the property rights system for state-owned enterprises. The perfection of enterprise structure and product structure not only may depend on adjustment of the structure of capital flow, it may also be done through adjustment in the amount of capital accumulated. Adjustment of the amount of capital accumulated can be done positively, such as by adjusting the orientation of production; it can also come through a negative means, such as by an enterprise bankruptcy. Either of the two forms can effectively adjust the structure of capital accumulation. For several years, reform of the Chinese enterprise structure has gone through some ups and downs, and also attained certain successes; but there still has been no start on setting up various means of adjusting the accumulation structure. State-owned enterprises separately report to different regions and departments, have fixed

production orientations, have no risk of bankruptcy, and their workers have no worry of unemployment. Naturally, the capital accumulation structure also cannot truly be adjusted.

Although we are talking of the total dispersal of national revenue that has accompanied reform of China's economic system, it is identical to the selection of an orientation for market reform, and also cannot for certain aggravate the loss of judgement concerning enterprise structure. However, we also must realize that the extent to which national revenue is dispersed should be coordinated with the extent to which the market is improved, which is to say that price regulation and reform of the property rights system should keep pace with each other.

One can say that by taking "dual track pricing" and the "contract system," as the important features of the dual system combined with dispersal of national income, it almost has to lead to a loss of judgement concerning enterprise structure. Because national revenue is allocated according to a dual system, therefore the central government's ability to control resource deployment is weakend. However, no one has created a corresponding means of dispersing concentrated funds. The significance of this, in a state of dispersing national revenue, the dual-track system cannot accomplish its mission of regulating enterprise structure. This is exactly the main reason why in past periods of retrenchment structural adjustments were powerless. In order to cut down on the inflationary pressures in the structure, we cannot but again urge the implementation of these options: push for progressive reform of prices and of the enterprise property rights system; also, without thorough alteration of the present system, adjust the system of revenue allocation, and appropriately concentrate the central government's share of resources.

#### **Policy Thinking Which Can Furnish Options**

The foregoing analysis recognizes that it furnishes too little judgement of enterprise structure, especially in agriculture and basic industries, and that the principal reason for China's inflation is that our processing industries were developed much too rapidly. Whether these several policies can choose a successful way of solving inflation depends upon whether they can advance the improvement and perfecting of the enterprise structure. Therefore, it is the basis for creating a more or less equitable structure. Starting out from this viewpoint, other than the currency tightening policies for continual stabilization, the policy thinking for resolving the issue consists of the following two options:

Number one, maintain the national revenue allocation structure that we already have, while at the same time push vigorously for reform of prices and enterprise structure. Make the overall macroeconomic domain of resource allocation contingent upon correct adjustment of market signals, a fairly high level of profits and a

superior means of furthering major adjustment of our enterprise structure so that it will be truly competitive in the marketplace. This will make for a balanced distribution among the market demand structure, the enterprise structure and the investment structure. There has been more than one attempt at implementing this thinking. In 1984, 1986, and 1988, the entire nation either put in motion or was thoroughly researching plans for appropriate price reforms, and enterprises from the starting point till now have gone through 10 years of reform. Experience has demonstrated that reform of prices and the enterprise structure are very far-reaching reforms, and their mission cannot be completed in 3 or 5 years. Before these reforms can basically be completed, the market adjustment part of resource allocation must be restricted by macroscopic conditions. Too much of the power to allocate national revenue has been transferred to lower levels, so that there is no way of ensuring that its structural improvement will be achieved, with the result that it will not help control inflation.

Number two, adjust the national revenue allocation structure we now have, while at the same time progressively deepen reform of prices and enterprise structure. The national revenue allocation structure that China has now already constitutes a new setup for allocation of benefits. In a situation where the functions of market signals and mechanisms cannot be fully balanced, the results which come with the national revenue allocation structure are of no benefit in restoring macroeconomic balance, and therefore are of no benefit to localities, enterprises, and labor. Under these conditions, adjusting an excessively dispersed national revenue structure increases the proportion of resources which are regulated directly by the central authorities and the government, so that resources are not committed entirely according to price signals, but rather according to the demands of economic structure equilibrium. This is absolutely essential. During the last 6 or 7 years, there has been a situation in which there was no adjustment of the national revenue allocation proportions. In order to pull up both the strong and the weak sufficiently to meet the increased demands of the processing industry, the mission of adjusting the structure was actually aided by increased use of loan methods, and this is an important reason why inflation was aggravated. Up to now, this method of "drinking poison to quench one's thirst," has not been continued. At the same time, if the mission of structural adjustment must be completed, there needs to be a strengthening of the central authorities' economic regulatory powers, as well as a strengthening of its powers concerning revenue and expenditures in the areas of public finance, loans and foreign exchange. Increase the proportion of overall economic resources which are allocated by the central authorities, to adjust the economic structure as quickly as possible.

Implementing the second policy option is not the same as the expansion of rights and yielding of benefits during the past 10 years. Rather, this will decrease the rights of localities and enterprises in the area of newly expanded

financial resources, so that the greater part of the national revenue is allocated by the central authorities. For this reason, there should be an appropriate adjustment in the present work responsibility base between the central authorities and the various provinces, or the amount turned over to the authorities by the provinces, so that there is an increase in the central authorities' share. The latter should be increased gradually until the central share is 60 to 70 percent of the total national revenue. At the same time, there should be an appropriate adjustment in the state's relationship with enterprises, until the public revenue proportion of the total reaches 30 to 35 percent.

Through the above adjustments, there will be an obvious strengthening in the state's ability to make adjustments in the economic structure. In a situation where prices have not completely been put in order, such weaker sectors as agriculture, energy, communications and transportation, etc., can also attain greater input of resources. This will make the economic structure incline to equilibrium, and thereby decrease the gap between total supply and total demand.

On another point, there should be a timely, continual deepening of price reform and reform of the enterprise structure. There should be a clear-headed recognition that the currently existing dual track setup is something which cannot continue for the long run; there must be a deep reform which will supplant the old system with the new. Moreover, in this process there should be established a new, effective means of macrocontrol, especially one which sends a signal to adjust the industrial structure and the property rights model, really putting the overall national economy on a sound developmental track.

#### **'Predicament' of State Ownership**

*OW1105101089 Beijing GUANGMING RIBAO  
in Chinese 29 Apr 89 p 3*

[Article by Zhang Jilin 1728 0679 2651: "Proceeding From Exploration Among Specific Patterns to Deep and Rational Thinking—An Outline of the Discussion Meeting on 'The Predicament and Prospects of the State Ownership System'"]

[Text] Since people criticized the abuses of the state ownership system 10 years ago, they have not been able to find a definite way out despite the implementation of various, specific approaches to reform. People now extend the scope of their attention beyond various patterns of practice and begin a deeper level of theoretical exploration. What are people thinking about? At a discussion meeting sponsored by the Economics Institute of the Chinese Academy of Social Sciences on 18 April, participants discussed the problems in three areas.

### **What Are the Causes Precipitating the Present Predicament of the State Ownership System?**

This is a fairly controversial topic. Some people are of the opinion that the problems brought to light by the state ownership system are connected with the definition and demarcation of property rights. They offer new interpretations of all the concepts of property rights, maintaining that property rights should be viewed in terms of the basic rights of social members. They feel that it is not a simple enterprise form. At present, the state ownership system uses job position to define the scope of a man's authority. Thus, it is somewhat difficult to avoid the involvement of government officials in this area. It is also very difficult to solve the problem of making proper and rational economic distribution. As a result, an embarrassing situation arises—when the state exercises too sweeping control over distribution, the system of centralization becomes rigid in practice. When state control is decentralized, disorder ensues.

Others maintain that it is illogical to attribute the problems caused by the state ownership system to the state ownership system itself. The reason for such problems is that we pay attention only to the use of prices, but fail to attach importance to what the prices mean—a practice which leads exceeding attention being paid to actual management work to the neglect of price management. The direct management assumed by the state over actual work has caused many problems, including separating the power of management and operations from ownership. The dual capacities of the state as the mainstay of the superstructure and, concurrently, owner of proprietary rights are contradictory. The state is both owner and manager. Under the circumstances, it is difficult to draw a clear distinction between the functions of the government and those of the enterprise. Meanwhile, as manager of the entire society, the state is also the owner of state enterprises. The situation tends to make most of the income of the society go to the state.

Others point out that the problems caused by the state ownership system are an indication of the morbidity of the overall economic system. It would appear that we are too limited and narrow in our knowledge and experience if we look upon the problems of the state ownership system as merely being the problems of property rights and ownership. As far as the external environment for enterprises is concerned, the all-round financial and foreign trade contract system, as well as the partial credit loan contract system, tend to make the enterprise policy favorable for enterprises which belong to government at the grass-roots level, but extremely unfavorable for some important enterprises. In this connection, it is not easy to cover the issue by using the enterprise system or the property rights system. Three important integral components that are mutually supportive exist within the enterprises: owners, managers, and laborers. The three components have their respective functions and form a balanced relationship which ensures that enterprises will assume full responsibility for their own profits and losses

when conducting economic activities. Therefore, when we analyze state ownership, we must not limit our efforts and attention to the problem of simply property rights. Instead, we should look for causes in the economic system.

### **Privatization Is a Dreadful Trap**

We cannot take the road of privatization when we carry out reform of the state ownership system. This view is the consensus of the participants in the meeting.

First, there has been a great change in the concept of privatization. Privatization advocated by some of us now is to measure and transfer the assets owned by the state to individuals. This is, in fact, the typical privatization prevalent in the 19th century and has a very difficult time meeting the needs of socialized mass production. The concept of privatization has already become very general. In his definition of privatization, Friedman said that whatever can provide a guarantee for free transfer is called privatization.

Second, privatization does not work under all circumstances and at all times. There are instances of its failure. An example is India, where privatization has not brought about any improvement in the corrupt economy, bureaucratic power abuses, and economic stagnation.

A review of human history shows that there has been only one transformation from public ownership to privatization, and that is from the primitive society to slave society. Although the transformation represented progress in history, its entire process fully reflected seizures and plundering. Most tribal chiefs became rich primarily through power abuse. They appropriated public property in tribal transactions for private use and took more captives for themselves than anyone else from tribal wars, thus becoming big slave owners. This process will be repeated should we opt for transformation from public ownership to privatization in the reform.

In the beginning of reform, we suggested that a segment of the population be allowed to become rich first, and indeed there were people who became very prosperous. However, careful observation will show that famous rich people in rural areas are often those who have been cadres since the time people's communes were organized, and that the reason for their prosperity lies in the power that was in their hands from the beginning. In cities, most millionaires have close connections with officials. Should we promote privatization and measure and transfer the ownership to individuals now, it is highly possible that bureaucratic capitalism will emerge. This is because state assets transferred to individuals will mostly be used to purchase stocks and houses, while most individuals do not own sufficient state assets bonds to buy houses. In this way, assets will be transferred to only a few individuals and, in the absence of any mechanism to restrict the centralization of capital to a few individuals, power abuse for personal gains will be

legitimized. Therefore, to promote privatization under circumstances devoid of the necessary conditions for fair competition can by no means be conducive to the Chinese economy and can only benefit a handful of people. It is a dreadful trap.

#### **The Share-Holding System Should Be a Feasible Solution**

A general trend of thought is that there is a great deal that the share-holding system can offer in getting the state ownership system out of its present predicament. However, we have encountered a difficult and unprecedented problem in implementing the share-holding system in China.

The share-holding system is a product of a developed commodity economy, and it should be introduced under a sound economic environment and a complete market system. In light of China's present condition, implementation of a standardized share-holding system would be rather difficult, while a share-holding system wilfully adapted to and emphasizing China's present characteristics will give rise to many new problems in the course of implementation. Therefore, it is necessary to find the optimum in between the two.

Some comrades suggested at the meeting that trial implementation of a mixed share-holding system may offer a solution. Under this system, public ownership can be represented by diverse forms of funds and social institutions, while individual share holders can freely transfer their shares or take over each other's shares. We may use Western experience as a reference in drawing up specific measures for implementing the system.

A rather controversial issue involves shares owned by enterprises. Under the standardized share-holding system, it is malpractice for any enterprise to own shares. This is because share holding by an enterprise, which does not contribute a single penny, is too heavy a burden for other share holders and society. However, shares owned by enterprises is a problem left over from history. At present, funds at the disposal of enterprises come mainly from three sources—irrational prices, profits retained by enterprises as a result of decentralization, and remuneration for above-quota labor productivity. Therefore, when implementing the share-holding system in China, such funds should neither be returned to the state for transforming into state shares nor measured and transferred to individuals. The funds can only be owned collectively by the staff members and workers and exist in the form of shares owned by enterprises.

The meeting was a contention of academic views without conclusion. It is believed that through heated debates and sober reflection by the people, there will be clear prospects for reforming the state ownership system.

## **PROVINCIAL**

### **Inner Mongolia Market Conditions Reported**

*SK1805123989 Hohhot NEIMENGGU RIBAO  
in Chinese 15 Apr 89 p 1*

[Text] Along with the gradual elimination of the old closed-type systems during the 10-year period of reforms, the socialist commodity economy has achieved development. A marketing system with multiple circulation channels, multiple types of enterprises, a diversified economy, and full vitality is gradually being established throughout the region.

Circulation channels have increased on a large scale. By the end of 1988, the region had 212,000 enterprises of various categories, including the units of commerce, catering, and service, which showed a 7.2-fold increase over 1978. Their average annual increase was 23.46 percent. Of these enterprises, 12,000 were run by the state, a 50.7-percent increase; 36,000 were run by collectives, a 2-fold increase; and 164,000 were run by individuals, a 199-fold increase. Employees in these enterprises reached 778,000 persons and showed a 2.2-fold increase. Their average annual increase was 12.47 percent. Of these employees, 251,000 were in state-run units, a 63.2-percent increase; 295,000 were in collectively owned units, a 2.8-fold increase; and 231,000 were in individually run units, a 244-fold increase. Joint-venture enterprises have grown out of nothing, with their number reaching 17; they have employed 697 staff members and workers.

Markets have enjoyed brisk business. The region's total retail sales reached 13.05 billion yuan in 1988, a 2.5-fold increase over 1978. The average annual increase was 13.5 percent which surpassed the 9.4-percent increase scored in the period between 1952 and 1978. Of the total retail sales, those of consumer goods reached 11.89 billion yuan, a 2.9-fold increase, and those of the means of agricultural production reached 1.16 billion yuan, a nearly 1-fold increase. The region's total retail sales of farm products which had been purchased by the nonagricultural population reached 727 million yuan in 1988, showing a 15-fold increase over 1978. Various consumer goods have enjoyed brisk sales. As compared with 1978, retail sales of foodstuffs showed a 2.4-fold increase in 1988, with an average annual increase of 13 percent; those of clothing showed a 2.3-fold increase, with an average annual increase of 12.6 percent; and those of daily necessities showed a 4.9-fold increase, with an average annual increase of 17.1 percent.

Foreign trade has entered a brand-new period of development. The region's total export volume reached \$294 million in 1988, a 27-fold increase over 1978. The variety of export commodities reached to 401. The number of the region's trade partners increased from 10 countries in 1980 to 54 in 1988. Border trade has achieved rapid development. The region's trade volume

reached \$96.77 million in 1988. The cities of Erenhot and Manzhouli have been important land ports which connect the two continents of Asia and Europe. The region has scored initial achievements in introducing outside funds and technologies. During the 1979-1988 period, the region introduced the 158 items of funds, technologies, and equipment, which were worth \$150 million. A new force of signing contracts on construction projects and labor cooperation with outside places has suddenly come to the fore. In 1988 the region signed the new contracts worth \$57.95 million with outside places.

It is inevitable for the region to encounter setbacks and shocks in replacing the old systems with the new because of the ongoing reform drive. Over the past 2 years, our region has also experienced a more chaotic order in the circulation field, abnormal business activities of "bureaucratic speculators" and "individual speculators," and the more general phenomenon of increasing prices arbitrarily or in disguised form. All of this has had an unfavorable influence on the work of stabilizing commodity prices, markets, and the people's feeling. Since the issuance of the "principle" of improving the environment and rectifying order, the region has brought about gratifying changes to various fields.

## FOREIGN TRADE, INVESTMENT

### GUOJI SHANGBAO on Developing Labor Exports

40060481 Beijing GUOJI SHANGBAO in Chinese  
8 Apr 89 p 1

[Article by Zhang Jingfang 1728 2529 5364: "Develop Foreign Contract Projects and Labor Exports"]

[Text] *Editor's note: China now has 10 years of experience in contracting for projects and labor exports. This article addresses three problems, all of which have grown out of actual work experiences and the lessons drawn from them. This newspaper enthusiastically welcomes a wider circle of readers, theoreticians, research personnel, and comrades engaged in this kind of work to open up the discussion and express their own views concerning questions related to foreign contracts and labor exports.*

China now has 10 years of experience exporting labor as a commodity. In these 10 years, China's business of contracting for foreign projects and labor cooperation has traveled an unusual route. For example, if 10 years ago Chinese companies made very little imprint in the international contract marketplace, 10 years later Chinese companies had gone into the woods of world contracts, and had made considerable progress. In fierce competition, they stood firm and opened up the situation. Chinese companies have gotten where they are while leaving a deep impression on comparable foreign firms.

There is no need for reticence, these 10 years have excited many people about this marvelous feat. However, at the same time many questions have been raised which merit concern. The brief sketch which follows is my humble opinion on just three of these questions.

### I. Establish Rational Proportional Allocation Relationships

Resolution of the allocation question requires regulation of proportional allocations among individuals, collectives and the state, establishing new allocational relationships. Of the various projects currently received by international economic joint companies, most are low-priced and of an intermediate level, which conceals the risks of financial loss. After the deal is clinched, the terms of the contract may be somewhat harsh, sometimes even placing the contractor in a dilemma. After the contract is signed, the organizations charged with implementation, due to weak logistical support and lack of suitable capabilities, frequently encounter this or that kind of problem which leads to delays in the project's startup and completion dates. Project managers, to avoid falling behind schedule which could damage their reputations and subject them to penalties, have no choice but to organize the workers for extra hours or shifts, adding manpower and equipment, and rushing the schedule. With the originally quoted bid down to a very low level, they will also pay the expensive costs of overtime and equipment maintenance, thereby adding to the project burden, and making a project deficit difficult to avoid. Moreover, the income of individuals participating in the project is not related to its profits and losses, so workers are not totally concerned about whether the project gains or loses; they just consider everything to be all right if their own incomes increase. Sometimes it even reaches the point where a poorly managed project places the individuals in a vicious circle. The occurrence of this kind of situation creates the "one big pot."

In order to raise companies' economic benefits, and guarantee collective and state ownership, it is essential that a way be found to break out of the vicious circle described above. To do this, we can first consider implementing two fluctuations. First, decide to make individual allocations generally on a level based upon whether a project's economic benefits are good or bad. If profits are good, individual incomes will be increased some; if profits are less, individual incomes will accordingly be lower. If losses are incurred, then just calculate the individual's cost of living overseas, exempting from purchase the "eight big items." We can also study and plan for project costs in the project budget by making project crews responsible for project completion, and not compensating them for overspending, but rather by deducting it from them. A second way to handle these fluctuating payments is to base them upon the individual's volume of labor. Break free from such fixed income systems as paying out petty cash beforehand and giving



comprehensive awards and meal money. Instead, substitute unfixed, fluctuating systems, which allocate according to work. The more work, the more pay, the less work, less pay—completely embodying the principle that what the individual receives and is paid will be in accordance with the quantity of his labor.

To attain this goal, the state needs to issue policies and decrees which will safeguard these measures. From first to last, cease announcing standards for petty cash; rather, let the companies make this decision themselves based upon the market.

## **II. Establish Training Groups and Organs Geared to Raising Labor Personnel Quality.**

If the quality of China's working personnel can be raised to a higher level, and their latent abilities totally unearthed, then our labor cooperation undertakings can make giant strides forward.

If the quality is low, this glaringly points up the problem of language differences. Along with the development of this undertaking, China's laboring personnel have increasingly been unable to match the requirements of the international contract market. At the end of the 1970s and the start of the 1980s, there was a great wave of construction in the Middle East Gulf region. Because we had groups to send at that time, the situation abroad was suited to China's laboring personnel, who were basically qualified. The situation has now changed considerably. The Middle East has gone through more than a decade of continuous high speed development and its infrastructure construction is fundamentally approaching completion. Especially notable were two wars within a decade, which hastened the shrinking of the international contract market, and sharply curtailed the project model for labor service, which greatly affected our joint labor services. However, the international labor service market is a broad one, and there still is a definite need for a labor services market which is technologically intensive, intelligent, and provides services. These are the very elements in which we fall short. As with the labor services we sent in the past, this inferior status regarding language differences can still be made up somewhat. But the technology intensive element still remains.

If our contract labor services business is to develop, the language barrier must be overcome. But under the system currently in effect, companies have iron-clad operations, with fixed activities—the "eternal brand"—while at the same time personnel are mobile, and assembled on an ad hoc basis. Companies do not have stable staffing. As for the language differences, training can resolve these completely, but the difficulty lies in who to train and how. If all personnel are trained, that would not maximize the companies' abilities; for it would take several decades to do, and waiting for the cultural level of the whole Chinese people to be raised would be too slow in coming to do much good.

Therefore, from the development plan, in order to effectively raise the quality of personnel, companies must build professional contingents if they are to be suited to the requirements of contracted projects and joint labor services. These professional contingents will be formed from high ranking managers (the first level), management personnel, engineering and technical personnel, various kinds of managerial personnel, and translators (the second level); foremen and high level technical personnel on key projects (the third level). Look at the present situation from the companies' standpoint. First, they are richer in second-level personnel, while personnel at the third level are either lacking or at most are very few. Moreover, the problem of low quality is also reflected chiefly in first-level personnel. If they had professional contingents, companies could by themselves make effective, intelligent investments to strengthen their foreign language and technical training. Specific training methods can be based upon the needs of different levels, by selecting different methods and different intensities of training. In this way twice the results can be obtained with half the effort.

Low quality also shows in the lack of appropriate capabilities. Due to companies being bound to specific operations, there is a characteristic turnover in the rank and file, with each batch of new "troops" arriving in a strange environment, and all requiring their own appropriate process. But to deal with everything suitably, companies also need to prepare for changeover to new "troops." Therefore, the overall picture of companies is that they always reside in an unbroken stage of unsuitability. If they have a suitably professional contingent as the backbone, with these then leading the new "troops" in carrying out projects, the greater part of the problem will be resolved.

The establishment of key groups and mechanisms for raising the quality of contingents is required for companies to have a professional contingent. This contingent need not be great in numbers of people, but it should be skilled and compatible. In this contingent each person should be versatile, with one person's capabilities of becoming two, four, ten or more, even several tens, so that even though they be few in number, their internal capabilities will be many. With this situation, the contingent's short-term nature will be overcome to a certain extent.

## **III. Mobilize the Enthusiasm of Personnel-Sending Units**

The overwhelming majority of China's firms engaged in international economic projects are jointly-operated, lacking in themselves sufficient numbers of construction crews. Today, with China's labor market still undeveloped, the main body of the construction crews is still dependent upon domestic engineering units, which is to say that in the majority of cases engineering units supply the construction strength. It is precisely due to this fact that when companies send people abroad, regardless of



whether it is a case of numbers, of quality, or of scheduling guarantees, all must rely upon the enthusiasm of cooperating units. Engineering units in China are usually in three classes: the project office (the company), the construction office and contingent (sections); and since the latter two are the units which have the labor force, the degree of their enthusiasm for the project has a greater effect. At present, the transaction prices for projects generally tend to be low, with poor economic benefits and meager profits. The cooperating unit's share of the profits are not much originally, but after passing through various deductions or other types of subtractions in the cycle, the construction offices of these units which actually have the labor force will receive very little or basically nothing at all. If these units are to gain no real benefits sending people, how can it not affect their enthusiasm? The resolution to this problem must also be found through reform.

If this tentative plan can be implemented, then after a company is awarded an overseas project, when it is seeking a labor force or a unit to share the contract and accomplish the task, it can make the selections on the basis of excellence, and need not go through various levels of administration or sign an agreement with the lawyers of the unit which directly has the labor force. Under the limitations imposed by the contract, the two sides will carry out their respective rights and duties. Because the contract is the only standard for the two cooperating parties' economic activities, regardless of whether the project benefits are immediate or owed, there will be a direct relationship with the cooperating unit, making a rise in their enthusiasm inevitable, and the assurance quality personnel.

At present, in the commercial relations between international economic joint companies and cooperating units, the phenomenon of enjoying the profits but not suffering the losses exists to varying degrees in the cooperating units. If a project is profitable, then the two sides will share in the profits; if there are difficulties, if there are deficits, the economic losses will usually fall only upon the shoulders of the international economic joint ventures. Even though the contractual stipulations may provide for jointly enjoying the profits, provisions for sharing in the risks have not had any effect. Resolution of this problem awaits the deepening of reforms.

In the international contract market, among the enterprise owner, the contractors, general contractors and sub-contractors, there is a set of tight conditional measures, protecting the rights and interests of each. These measures can be summarized in one point; that is, the contractor or the sub-contractor open their own bank accounts, so that the profiting party (the owner or general contractor) can receive various kinds of letters of guarantee directly from the bank. In the event that the contractor or sub-contractor should break the contract, the profiting party can then use the letter of guarantee to recover the losses. The domestic contract market is still not matured, and the letters of guarantee issued by banks

basically cannot be used as conditions. Internationally, owners are always in a position of initiative. The domestic situation is the exact opposite; the rights and interests of the owner or general contractor are not fully guaranteed. The crux of the problem lies in everyone eating from the "one big pot." The international economic joint ventures are the nation's, cooperating units are the nation's and sub-contractors are also the nation's; whoever accepts profits, also accepts losses, with everyone the same. The day when the ownership system and operating powers are totally separated is when this problem will be resolved; but until that time, when conditional mechanisms are objectively recognized as necessary by all involved, will economic measures be fully utilized. Only then can the enthusiasm of cooperating units be brought into full play. And not until these two aspects are maximized can we effectively move ahead toward our common goals.

## POPULATION

### China's Rural Population, Production Restructuring Discussed

40060526 Beijing ZHONGGUO NONGCUN JINGJI  
[CHINESE RURAL ECONOMY] in Chinese  
No 2, 1989 pp 15-19, 35

[Article by Wu Cangping 6762 3318 5493, Population Research Institute, the Chinese People's University: "Quantity and Quality of China's Rural Population in Connection With Industrial Restructuring"]

### [Text] I. Full Recognition of the Importance of the Rural Population Question

At the time of the democratic revolution, the primary problem of the Chinese revolution was the peasant problem. In today's phase of modernization, the peasant problem is still of major significance. China is now in the stage of initial socialism. This is a stage of gradual emergency from poverty and backwardness. At this stage, a transformation is taking place from an agricultural country, in which handicraft and labor is predominantly performed by the rural population, to a modernized industrial country of a mostly nonagricultural population. During this stage, the rural population problem continues to exist because all poverty and backwardness in China relates to the rural population.

1) China has a population of almost 1.1 billion, of which an estimated 700 million, at least, are in the countryside. The majority of these people still depend basically on manual tools and the soil for their living; they are the most backward of China's work force.

2) Although China has many modern industries, the most numerous of its industries are labor-intensive industries, i.e. the township industries in which peasants are the main element.

3) Although China is in top-ranking position worldwide in some branches of science and technology, one quarter of China's population is presently still illiterate or semi-illiterate. The rate of illiteracy or semi-illiteracy in the countryside is as high as 31.4 percent and in some areas reaches to as high as half the population.

4) Although living standards have greatly improved in China during the last few years, the problem of providing the basic needs of existence for one portion of the population has not yet been solved; these people again mostly belong to a portion of the poor peasant population.

Looking back in history, we see that if the base figure of China's rural population would not have been that large, if the population growth would have been slower, and if the cultural level of the young peasants would have been somewhat higher, we would have made better progress in modernization, would have a higher level of township industries, and a higher living standard of the peasants. If a solution is not found for the rural population problem, the resulting situation could be that while we have palatial buildings and a glittering array of high-rises, auditoriums, hotels, guest houses, and a certain degree of modernization in the cities, most of the rural area will be backward. China's modernization would indeed only be a sham.

The reason why China's rural population problem is of importance is still the sharp contradiction that exists between China's rural population and the available natural resources, a contradiction that has restricted development of the rural areas. Although China as a whole has abundant natural resources, it is lowest worldwide in a per-capita computation of natural resources. Most conspicuous is the shortage of fresh water and land resources, and next the scarcity of forests and grassland. Of the total 9.6 million square km of China, mountainous areas account for one-third, high plateaus for 26 percent, and arable land for only 10 percent. There is less than 1 1/2 mu of land per head of the population, and less than 5 mu per head of those engaged in agriculture. If the rural population problem cannot be solved, available arable land will further decrease. Nowadays, some provinces have on the average every year one county of land less and one county of population more. If this goes on, all our efforts to turn poverty into prosperity and to attain the level of a medium-developed country are bound to be impeded by the shortage of natural resources. China has one-seventh of the world's arable land to feed 22 percent of the world's population, and depends on this continuously shrinking arable land to produce cash crops, provide raw materials, and to support with this limited soil the today's population of almost 1.1 billion people, which will in future swell to 1.5 billion. Under these circumstances, the difficulty to attain the level of a medium-developed country can well be imagined. Solution of the rural population problem must, therefore, be viewed as of greatest significance. However, the problem of China's rural population is not

merely a question of having more or fewer babies born, but we are also faced here with the problem of raising the quality of the rural population, and the problem is equally related to the problem of transforming this population from a predominantly agrarian into a predominantly nonagrarian population.

## II. The Key to China's Population Control Lies in the Countryside

In the 1950's and 1960's, particularly also in the early 1970's, China, for generally known reasons, did not truly pay attention to the population problem. Because of the rapid decline in the mortality rate of the population during that period, without a corresponding reduction in the birth rate, which to some extent even increased somewhat, there was a rapid inflation of the population. The result was an increase of the Chinese population from the 540 million at the time of the founding of the PRC to the present almost 1.1 billion; it was precisely a doubling of the population. We are justified in stating that China's rapid population increase is due to the lack of effective population control among the rural population.

Later in the 1970's, China has had a certain success in controlling population growth, in a way that is well known throughout the world, but there is still a great disparity between the effectiveness of population control in the urban as compared with the rural areas. Today, population growth in China's cities is actually under complete control, and population growth in China's cities is lowest throughout the world. One-child couples account for an average of over 70 percent in the cities, and in some large cities to over 90 percent. There is, therefore, no potential anymore for a further reduction of the population in the cities. If it were not for inertia in population growth, the population in the cities would go down further, but as it is, we cannot, therefore, hope for any reduction of the urban population to make up for the very large increases in the rural population. Furthermore, looking at the future, the low birth rate in the cities cannot be upheld for too long, otherwise, it may become the cause for a series of other social and economic problems. The key to China's future population control lies in the rural areas.

Following the 1970's, there had indeed been a very large decline in the birth rate in China's rural areas. While a couple had on the average 5 to 7 children in the 1950's and 1960's, this figure has dropped to presently somewhat over 2 children, which is already a substantial decline, and much lower than the rural population growth rate in many developing countries. It will, therefore, be very difficult to further lower the birth rate.

Of course, introducing family planning in economically and educationally backward rural areas is a very difficult proposition, and it would require reliance on appropriate economic and educational developments to achieve a further decline in the birth rate in China's rural areas. At

present, the rural production responsibility system has greatly stimulated the production enthusiasm of the peasants, but it stimulated mainly the enthusiasm of individual producers, and did not sufficiently stimulate reliance on science and technology, reliance on the quality of the workers, and did not stimulate enthusiasm and specific action for the development of productivity by a restriction on births. It was only due to the close cooperation of large numbers of hands that achievements in agricultural production were brought about, so that the peasants will not spontaneously pursue lower birth rates.

In the past, reduction of the birth rate in rural areas of China had to a large extent depended on the propagation of government policy regarding family planning and by administrative and economic measures. These means and measures are no more effective than in the past. After instituting the production contract system, the organizations in charge of family planning and their personnel have not worked as satisfactorily as one would have wished. Now, everybody is agreed that family planning in the rural area is a very difficult task, but if early marriages and raising large families in the countryside are not controlled, it will be impossible to reduce the birth rate.

Besides, China has no old-age insurance system in the rural areas, and the idea of having to raise sons to provide for old age is therefore a concept that the peasants will not give up. Since the backward methods of production in the villages mainly require physical strength, the idea that many sons ensure prosperity and the preference for boys over girls can hardly be eradicated for the time being. This leaves no hope that the peasants will spontaneously foster any desire to reduce births.

China is now faced with a height of births in cities and in the countryside. In the cities, the high rate of births has been effectively controlled by advocating that each couple have only one child. In the countryside, however, where the average is somewhat over 2 children per couple, the height of child births will be larger than during the second height in child births. According to a 1987 survey on the basis of a 1 percent birth rate, women who may bear their first and second child within this century (those then between the ages of 10 to 24) are estimated at 2.36 percent out of 1 billion. According to the present birth rate, these women alone will give birth to 300 million, so that the outlook in the matter of the rural population increase is extremely grim. If there is this continued inflation of the rural population, and the birth rate cannot be brought down, it will bring about the following serious problems:

1) As people multiply, the growth rate of the population will accelerate. This will make it impossible to improve within a short time the physical quality, the scientific and educational quality, and the intellectual and ethical quality of the rural population.

2) There will be a ceaseless stream of rural population moving into the cities, or of agricultural population transferring to nonagricultural occupations, which China's cities and towns will have difficulty accommodating.

3) With so large a population, it will be difficult to smoothly carry out mechanization and modernization. It will also be impossible to achieve progress in the modernization of agriculture.

4) One portion of the population may become prosperous in advance of others, but many more will have to bear the heavy burden of too many children and will find it impossible to get out of poverty and achieve prosperity. In this way, the disparity between rich and poor will grow wider and may unfavorably affect security and solidarity in the villages.

5) The continuous increase of the rural population is bound to exert even greater pressure on the natural resources, such as soil, fresh water, grassland, and forests. Solving the problem of providing the immediate necessities of life for the ever increasing population, will often, unavoidably, inflict damage on the environment in order to provide momentarily needed facilities.

### III. The Quality of the Rural Population Causes Concern

There are now three conspicuous problems as to the quality of the rural population:

1) Because of the long duration of their economic and cultural backwardness, as well as the restraints of a natural economy, peasants have a narrow field of vision and are backward in their ways of life. Especially in the mountainous regions, remote border regions, and in the districts inhabited by ethnic minorities, the physical quality of China's rural population is very poor because of malnutrition, unclean water, narrow circle of intermarriages, prevalence of marriages between close relatives, poor health care, and the neglect of many contagious and hereditary diseases. According to a 1987 survey, deformed persons constituted about 6 percent of China's population, but the proportion is much higher in the rural areas. Mentally retarded youths make up 1.5 percent of China's rural population; this poor quality is far from what would be demanded in the quality of a modernized population.

2) Having been under feudal rule for so long a period of time, the cultural quality of China's population is even lower. Judging by a 1987 survey by sampling, 31.5 percent of the rural population above age 12 were illiterate or semi-illiterate, and among these 44.2 percent of the women were illiterate or semi-illiterate. Only 44.1 percent have had an elementary school education. The average schooling received by China's population is 5 years, and the educational and cultural level is even

lower among those working in agriculture, forestry, animal husbandry, sideline production, and fishery. The state has actually promulgated a law on compulsory education, but due to the lack of supervision and checks of its enforcement, student absenteeism and students dropping out half-way are frequent occurrences. In addition, insufficient operating funds make it impossible to bring about a quick change in the state of low cultural quality of the rural population.

3) Following the initiation of family planning in China, the regional distribution of cases of newly born babies brings about the danger of a decline in the average quality structure of the Chinese population. As everybody knows, the urban population is in physical and cultural respects of a higher quality than the rural population, which is worst in the remote border areas, in the mountainous areas, and in areas inhabited by ethnic minorities. Now, however, with the success of family planning in the large cities, the cities have a relatively lower birth rate, while the rural population, which is of relatively low quality and living where it is difficult to implement family planning, will have a relatively higher birth rate. This will result in a large decline in the average quality of China's next generation. Even if the cities will educate several tens of thousands of highly qualified talents, it will not bring about a turn for the better in the declining average quality of the Chinese nation. The quality of China's rural population will, therefore, be decisive for modernization in the quality of China's population.

If we continue to give slight consideration to the quality of the rural population, the consequences can be serious:

First, investigations in all localities prove that women with junior middle school education have a much lower rate of child births, namely almost half the rate of those with only elementary school education, or of illiterate or semi-illiterate women. If the educational quality cannot be raised, population control will achieve only half the result with twice the effort.

Second, if the educational level cannot be raised, it will be impossible to implement mechanization and modernization in China's agriculture.

Third, in villages with extremely low population quality, it will be very difficult to establish spiritually civilized customs and practices; they will then continue their feudal, ignorant, and backward customs and habits, predominantly superstitions, gambling, arranged marriages, etc. Similarly, it would be impossible to achieve protection of the ecological environment and cultivation of good hygienic habits by the peasants, and the establishment of moral principles and the adoption of good village rules and folk customs.

Fourth, if the quality of the rural population cannot be raised, it would be out of the question to truly transform any of the agricultural population into nonagricultural

population, and also out of the question to urbanize the population. If uneducated peasants were allowed to stream unceasingly into the big cities, it would not be a process of urbanization, but rather a "ruralization of cities and towns." Some cities of the third world, like Bombay, Dakar, and Calcutta, are examples of this happening. If peasants of undesirable quality enter the cities, it is out of the question to speak here of an industrial restructuring; the result will rather be serious unemployment in the cities and environmental pollution of the cities. Low quality population will continue to congest cities and villages.

#### IV. The Problem of Resettling the Rural Population

In 1987, China had a working population of 585 million people, of which 71 percent, i.e. 415 million, were employed in "greater agriculture" (which comprises agricultural cultivation, forestry, animal husbandry, and fishing), this is indeed a considerable number of people. Some estimate that this number includes at least 150 to 200 million surplus manpower, which is an inevitable phenomenon of an underdeveloped commodity economy. There is only one solution for this, namely to start economic diversification, develop commodity production, have more of the rural population abandon agriculture and gradually be transformed from agricultural population to nonagricultural population.

Since China is starting out from a poor foundation, the state cannot allocate more funds to absorb the surplus rural manpower in the big cities. In another respect, China has for a long time been ruled by a kind of natural economy ideology of the small peasantry and had not given serious thought to population movement, so that for 40 years after liberation the resettlement of the agricultural population has been extremely slow. By 1982, the urban population throughout the country accounted for 20 percent of the total population, and subtracting from it some agricultural population within the precincts of cities and townships, the nonagricultural population was actually only 140 million, which accounted for only 14 percent of the total population. In recent years, 80 million peasants have transferred or partly transferred to nonagricultural occupations, this is indeed a huge transformation. But the rural population that will have to be resettled in future is enormous. The burden is heavy and the road is long, and the enterprise is beset with many problems.

First, it is estimated that the surplus agricultural population that requires resettlement out of the villages amounts to no less than 150 to 200 million. Even if 10 million are resettled every year, it will not be possible to have resettled a portion of this population by the beginning of the next century. In the meantime another approximately 15 million will have grown up to the right age to join the contingent of agricultural manpower. If population control is not effective, there will in future be a ceaseless stream of surplus rural manpower, without any possibility of stabilization and retrenchment. Up to

the end of this century, China's labor population of the right age will be no less than 800 million, equal to the total manpower in all the developed countries. Even if half of that manpower is retained in the countryside and only half of this manpower will be in cities and towns, China's nonagricultural industries are in no condition within the next 10 years to provide that many work places, and as a result this development will aggravate the labor surplus in the cities. By that time, the only way would be to again maintain to a certain extent the systems of "eating from the big pot" and "have three persons' food do for five persons," or, as another choice, to reverse the flow of population again back to the villages. The pace of rural population resettlement may therefore slow down before it will get out of hand.

Second, township industries have suddenly come to the fore as a new force; they have quickly developed and absorbed a large amount of rural surplus manpower. But township industries are, generally speaking, disadvantaged by shortages of capital, qualified personnel, and technologies, and by themselves have a poorly developed infrastructure. For these reasons most of the township industries which mainly absorb peasants can engage only in labor-intensive types of industries or in some technologically simple service industries. They may also contract for the production of parts and components for the large and medium-size industries of the cities, which would, unavoidably, also include some polluting industries. In the long-range view, the development of the township industries can maintain their positions only with some advantages in local natural resources. Under the present conditions in China, a too rapid inrush of rural surplus manpower into the township industries could possibly result in the destruction to some extent of the local natural resources and in environmental pollution. This situation is already visible in some developing countries, and this point is also proven by the deterioration of the rural environment in China during recent years.

Third, the road to urbanization of China's population is quite clear, namely control of the development of large cities, a planned and rational development of medium-size cities, and active buildup of small cities and towns. However, at this historical stage of reform and opening up to the outside world, the flow of rural manpower into the large cities and medium-size cities is unavoidable. According to statistics, there is now a floating population of 50 million actively working in the big cities. For instance, Shanghai has a floating population of 1.5 million that immigrated from outside of Shanghai, and Beijing has about 1.2 million, a large proportion of whom came from the villages. This rural surplus manpower that moved into the large and medium-size cities may take up work which the residents in these cities do not want to perform, they lower the average age in the cities, and contribute to the invigoration of the economy. But on the other hand, they can also bring about many population problems in the cities, for instance increased

pressure on the city's infrastructure, on communications, housing, environmental sanitation, and city security, and if not properly handled, these problems may hinder reform and opening up of the cities.

Fourth, the movement of rural surplus manpower into the cities will also cause an aging of the village population and a shortage of educated youths in the villages. Those moving from the villages into the cities are in the overwhelming majority aged 15 to 35. They are the best educated, mentally most alert, and most inclined to accept new things. Those who remain in the villages will mostly be old people as well as women and children, most of them of a low level of education. In some villages of China we now see that old people and women take on the major agricultural production, and in some cases the land is left lying waste. This has seriously affected agricultural production and the progress of modernization of agriculture.

#### V. Problems and Countermeasures

China's rural population problems are complex and difficult to resolve. They are of long standing and cannot possibly be resolved within a short time. The existence of a rural population problem is due to the lack of a modern guiding principle in our past guiding ideology. In the past, we have in actual fact viewed the rural population problem with a small peasant mentality, of which key manifestations are: A relaxation over a long period of time in rural population control, neglect of modernizing population processes, long-term neglect of the problems of raising the quality of the rural population and of improving their education, insufficient encouragement for any resettlement of rural populations, even advocating the reverse flow, namely of people to the mountains and into the countryside. In the past, the population problem was simply treated as a feeding and employment problem, and very seldom were such issues touched on as raising the cultural level in the countryside, and how to gradually transfer peasants to nonagricultural industries. That way of thinking that gave consideration to such points as the large numbers of the rural population, and that discussed the problem much and with much enthusiasm and vigor, had merely the demand for physical labor in mind. Malthusianism was criticized, and emphasis was merely placed on "more hands" and not on "more brains." More population was considered beneficial, and while all energy was devoted to class struggle, rural modernization was for a long time never placed on the agenda of the day. Treating the surplus population in cities and towns in such an egalitarian way as "making three persons' food do for five persons," all this is considering the problems from the point of view of small peasant or agricultural socialist ideology and not from the viewpoint of large-scale production or from a modern perspective.

For a solution of the rural population problem we must view it from an objective and modern viewpoint and contemplate it on a high strategic plane. First, we must

comprehensively deepen the reform and create a social environment for the solution of the rural population problems.

Second, we must firmly uphold family planning as one of the fundamental policies of the state, and truly have quantitative control of the population and raising population quality become common knowledge of every household. Before the second high tide of population growth will have abated, i.e. within this century, we must not relax, but rather tighten up on population control.

Third, we must energetically raise the scientific and cultural level and the level of health care in the rural areas and have the mental and psychological quality of the peasants, their cultural and scientific quality, and their physical quality meet the demands of modernization. A task of top priority is the earnest implementation of compulsory education, which we must definitely not treat in a perfunctory manner. On this foundation we must develop technical education and health care, as suited to the villages; otherwise, Chinese villages will become a dead spot in the four modernizations.

Fourth, under the guidance of planned commodity economy, we must consider rural industrial restructuring under the overall unified aspect of macroeconomic returns, social benefits, and the environment. Population transfers must not be undertaken with undue haste, nor must they be made to suffer hesitations and delays.

Fifth, different channels, such as legislation, administrative actions, public opinion, and social morality should ensure benefits to arise for the solution of the rural population question, and at present most important is: formulating a family planning law, law on eugenics, enforcement regulations for rural compulsory education, regulations governing the floating population, a law on the use of rural land, and a rural environmental protection law, so as to integrate the solution of China's rural population with the reform and opening up of the entire social environment, and have the two undertakings help each other forward.

**Note:** Data of population statistics in this article are taken from the 1 percent population sampling survey of 1987.

#### **Economic Development, Rural Family Planning Relationship Discussed**

40060450 Beijing RENKOU YU JINGJI  
[POPULATION AND ECONOMICS] in Chinese  
No 1, 25 Feb 89 pp 16-21

[Article by Cao Jingchun 2580 2529 2797, Liaoning Provincial Family Planning Commission: "On the Development of the Commodity Economy and Rural Family Planning"]

[Text] Since the 3d Plenary Session of the 11th Party Central Committee, China's rural economic system has undergone successful reform. It has been a historic

turning point: A self-sufficient and semi-self-sufficient rural economy is turned into a commodity economy, and traditional agriculture is turned into modern agriculture. China's 800 million peasants support wholeheartedly and welcome with open arms the party's policy to make the people rich. Their enthusiasm for developing the commodity economy and increasing productive capacity is at its height. This not only is of historic significance to China's prosperity and national strength and the "two civilization" constructions, it no doubt will have profound and lasting effects on changing the reproduction pattern of the rural population.

#### **I**

The population issue ultimately is an economic issue. A commodity economy is an economy where direct exchange is the basic objective. Fundamentally, it can promote rural prosperity and make the peasants rich. We believe that the development of the commodity economy will change dramatically the peasants' reproduction concept and behavior and will both encourage and discourage reproduction over a period of time. Initially, when the self-sufficient and semi-self-sufficient economy turns into a commodity economy, when the peasants have enough to eat and wear, when they first get a taste of wealth, there will be a strong desire and urge to reproduce. Economic factors which produce this kind of effect are:

(A) When the villages begin to implement the production responsibility system, most production units are individual families and households. The number and the physical strength of the workers in the family have a direct bearing on the economic benefits of that family. In particular, since agricultural production and the diversified rural economy basically still depend on physical labor and manual work, the bigger the family and the bigger the labor force, the more money they earn and the faster they get rich. As a result, increasing the labor population and the family size are issues of major concern to the rural families. Even though it takes years before a child becomes a unit of labor force, the peasants have long-term considerations, and they want more children, especially sons.

(B) The development of the commodity economy has brought wealth to the peasants, improved their living standards, and increased their income. This has provided the economic support to the peasants' habit of having more children. Some peasants want more children, more than their quota, and they want children sooner, and they ignore the economic sanctions. This is because they now have the economic strength.

(C) Since the implementation of the production responsibility system, the collective economy, to a certain extent, has weakened. The once effective reward and punishment system of family planning no longer works. For example, in the separate household management system, single child incentive pay, paid children's health

insurance and free schools and other privileges awarded to families with only one child are not guaranteed or are no longer available. Economic sanctions against families with too many children are seldom imposed. In some localities, it is a situation of "can't afford awards and can't justify punishment," and so "everybody minds his own business, everybody does his own thing, and everybody bears his own children." This creates opportunity for those who simply want too many children.

(D) With the development of the commodity economy, some peasants have abandoned the land and gone elsewhere to participate in commodity production or exchange. Some (various kinds of craftsmen) have taken the whole family with them and have become mobile "drifting households." Relevant department has estimated that there are more than 60 million mobile population nationwide today. Because it is difficult to control their reproduction, it has given them the opportunity to have more children.

It is because of this new situation of the development of the commodity economy, and because we do not know enough about, are not adequately prepared for, and do

not have sufficient leadership to deal with the newly emerged population problems such as the huge increase in the mobile population, the tendency for people to get married and have children earlier, and the increasing number of unwed mothers; or perhaps it is because we have not kept up with the times, and so, in many villages, population is swelling, and too many people are having too many children too soon.

As the commodity economy continues to develop, and as peasants continue to attain greater wealth, their desire for more children will gradually weaken, and the interest in birth control will grow stronger. Thus, in terms of the development, and from the long-term, overall, and basic point of view, the better developed the commodity economy, the more effective will be the rural family-control programs. The surge in population early on in the commodity economy will subside, and as the commodity economy continues to develop, it will level off and eventually decline.

Liaoning Province had a rural population of 15.52 million in 1987. The intimate relationship between economic development and population increase between 1980-1987 is shown in the following table:

**Table 1: The Relationship Between Liaoning's Rural Economic Development and Family Planning, 1980-1987**

Year	Economic Indicators			Family Planning Indicators			
	GVAO (100 million yuan)	Total Grain Output (100 million jin)	Per Capita Peasant Income (yuan)	Births (persons)	Birth Control Rate (%)	Percent of Single Child	Percent with Siblings
1980	81.7	244.3	273.0	359,500	72.1	56.6	10.3
1981	85.3	232.1	306.6	397,706	73.8	71.3	7.9
1982	90.3	230.4	334.2	423,050	82.1	80.7	4.9
1983	110.0	297.0	452.4	300,728	91.1	88.4	2.1
1984	129.9	285.2	477.4	236,025	99.1	93.3	0.21
1985	118.05	195.2	467.7	233,306	99.0	83.73	0.48
1986	142.02	244.4	533.2	306,332	98.1	71.76	0.53
1987	169.22	245.2	599.3	320,985	99.0	66.09	0.38

Source: "Liaoning Economic Statistical Yearbook," 1983, 1984, 1985, 1986, 1987, respectively.

It is obvious that rural population is under control in this country, and the birth control rate has increased year after year; fewer families are having more than one child, and fewer babies are being born each year. To a large extent, this is the result of deliberate policies, but ultimately, it has to do with economics, especially with the development of the commodity economy.

## II

How do we assess these two tendencies, these two effects? We suggest that the over-stimulated reproduction at the beginning stage of China's commodity economy is temporary and unstable; it is a "minor transition," because the commodity economy has not yet

affected the peasants' reproduction attitude and behavior to the extent of producing a qualitative change (at the individual level, this qualitative change refers to the change in the individual's attitude toward reproduction which determines his behavior of not wanting more children. From the overall perspective, this is the leveling off and decline of society's population increase trend.). The reproduction trend in China's rural areas today is at the transition period.

The historic inevitability of this "minor transition" is not just the result of the development of the commodity economy. From the point of population reproduction, we have to consider the inertia of the old population reproduction pattern, especially the old thinkings stored in the peasants' minds, such as the traditional preference



for sons over daughters, the desire to have both sons and daughters, the idea of the more children the more blessed, and the obligation to perpetuate the lineage from generation to generation. These and other traditional concepts about marriage and children play a determining role in the peasants' reproduction behavior, and they will not relinquish the historic arena; stubbornly, they will continue to play a role. But inevitably, the population growth trend will gradually change from an extensive reproduction mode to an intensive reproduction mode.<sup>1</sup> And during this transition period, the commodity economy will develop, and mankind's material and spiritual civilization will be enhanced, and they will have an important historic effect. Today, the development of China's rural commodity economy is also helping to overcome the inertia of the old reproduction pattern and restrain the peasants' blind impulse to reproduce. The development of the commodity economy

no doubt will promote family planning in the rural areas, and the temporary surge in population too will level off, and there will be a steady decline.

As the commodity economy develops, how rich do the peasants have to be before we actually see a decrease in the reproduction rate? Judging by Liaoning Province's situation, we think it is when the peasants become relatively well-off, that is, the economic indicator that marks the change in attitude is when the per capita net income (net of production-type expenditures) reaches 1,000-1,500 yuan.

Based on the peasants' average net income per year, we have classified the peasant families as poor (under 200 yuan,) subsisting (200-500 yuan,) comfortable (500-1,000 yuan,) and well-off (over 1,000 yuan.) Since the 3d Plenary Session of the 11th Party Central Committee, China's rural areas have become increasingly prosperous. The following table shows the situation in Liaoning:

Table 2: Percentage Increase in Per Capita Peasant Income of Liaoning Province Over Time

Year	Poor under 200 yuan	Subsisting 200-500 yuan	Comfortable 500-1,000 yuan	Well-Off over 1,000 yuan
1978	59.8	39.8	0.4	-
1981	21.8	65.4	12.3	-
1983	6.3	59.0	32.2	2.5
1984	7.6	52.8	35.1	4.5
1985	10.3	49.6	33.7	6.4
1986	6.5	45.7	39.8	8.0

Source: "Liaoning Province Economic Statistical Yearbook," 1987, p 273.

From 1986 to June 1988, a total of 14,139 couples in Liaoning have given up their second birth quota (policy permits those couples to have a second child, but they have chosen not to). Among them, 13,170 couples are from the rural areas; they make up 0.57 percent of all couples in the rural areas which already have one child. The better developed the area and the higher the peasants' income, the higher the proportion of couples who choose not to give birth again and have only one child for life. For example, Dalian Prefecture is an economically developed prefecture. Over the years, 4,905 couples in the rural areas have surrendered their quota for a second child; this equals 37.2 percent of the provincial figure. In the economically backward Chiaoyang Prefecture where the peasants are poor, the rural population is comparable to Dalian's, but only 69 couples have given up their quota for a second child, comprising only 0.5 percent of the provincial figure.

The common factor in the rural households with an only daughter but choose not to have a second child is that more than 90 percent of them are either comfortable or well-off. In Dalian City's Jingzhou District, since 1986, 1,127 couples have an only daughter and have remained

one-child families for life. Their family income situations are: 109 households, or 9.6 percent, have net income below 1,000 yuan; 355 households, or 31.6 percent, have income between 1,000-1,500 yuan; and 663 households, or 58.8 percent, earn more than 1,500 yuan. Other regions show similar patterns. Thus, the well-off families mark a clear change in attitude toward reproduction. What accounts for the significant proportion of this class of families giving up their second birth quota? We discern the following characteristics in Liaoning's situation: (1) The families live in an urbanized, modernized environment; most enjoy upscale consumption goods, and some even have in-door plumbing and gas utilities. (2) 80-90 percent of the family consumption goods are commercial goods; they no longer live in a self-sufficient or semi-self-sufficient, small-scale peasant economy. (3) These people can live on their retirement pension and do not have to depend on their children to support them when they get old. (4) Well-equipped, fine quality retirement homes and day-care centers and other social welfare services are readily available. (5) Most peasant couples have turned to the secondary and tertiary industries; some are part industry worker and part farmer, others are part businessmen and part farmer;



they do not have to depend on the families' own labor forces. (6) They are beginning to abandon production methods which rely simply on cumbersome hand tools and tedious physical labor and are beginning to or are already using mechanical tools. (7) The principal members of the family have at least junior middle school education; one-third have high school education or more.

These well-off families provide the firm and reliable economic foundation for changing the old concepts about marriage and children, concepts such as "the more children, the more blessed"; "sons are better than daughters," and one must "perpetuate the family name."

### III

The development of the rural commodity economy basically, and in the long-run, will benefit family planning. Its glorious historic achievement lies in its providing the solid material guarantee and the fundamental intrinsic cause for changing the peasants' reproduction attitude and behavior which in turn controls the rural population and improves the quality of the people.

(A) The development of the commodity economy promotes the change in the peasants' reproduction attitude.

Basic Marxist principle tells us that the economic foundation determines the superstructure, and material determines ideology. Today, in the vast rural areas of China, because of the rapid development of the commodity economy, the peasants' production and living conditions have improved, and the rich material life in turn has changed their attitude toward reproduction and the value they attach to children. For example, the adjustment of family planning policy in 1984 showed that there are 445 single-daughter peasant households in Dalian City's Hongqi County in the Ganjingzi District; they make up 51.86 percent of all single-daughter households. Those peasant households could each have another child under the new regulation, but are determined not to. All of these 445 couples are wealthy families with all the qualifications; some are even "10,000 yuan households." Why did they choose not to have a second child? They said, "We can afford more children, but we believe firmly that to get rich sooner, marriage and children have to wait."

As the income level rises, the peasants' consumption level also rises, and their living standard also improves. In 1986, the average peasant consumption expenditure in Liaoning was 433.56 yuan, of which 68.6 percent was spent on commercial goods. The change in the consumption-mix has an important effect on the peasants' attitude toward having children. As some peasants say, "For the villages to be rich, we depend, one, on policy, and two, on science. To have more children now will neither get us out of poverty nor make us rich." As a result, they have changed their minds about having more children.

In short, the development of the commodity economy is changing the peasants' attitudes toward time, value, and benefits, and it is also changing their concepts about marriage and children.

(B) After the rural commodity economy develops, the rural industrial structure will have to change, and this will promote a decline in the birth rate.

After the rural commodity economy develops, it will speed up the conversion of the agricultural population into a non-agricultural population and the rural population into an urban population, and these will directly lead to a change in the industrial structure. In recent years, secondary industry in Liaoning's rural areas has continued to expand rapidly, and tertiary industry too has only just begun to flourish, and commodity production has never been busier. In 1986, the gross value of industrial production in Liaoning's rural areas topped 12.61 billion yuan; various specialized households numbered 461,000 strong; there were 2,764 specialized villages, 227 specialized townships, and 1,512 rural country markets.

The change in the industrial mix necessarily will cause a decline in the rural birth rate, because there is a significant difference in the reproduction pattern between people of different occupations. Looking at the number of births in Liaoning in 1981 based on the classification of women of child-bearing age according to their occupation, 95-96 percent of the professional technical personnel and primary industry personnel had one child, versus only 62.8 percent of the rural laborers; this is a difference of almost 33 percent. Around 21 percent of the peasants had two children, and more than 12 percent of the peasant families had 3 or more children. Thus, as the commodity economy develops, the sooner the agricultural population becomes non-agricultural and the faster the rural population becomes urban population, the easier it will be to control the total population and to improve the quality of the population.

(C) The development of the commodity economy can directly promote improvement of the peasants' cultural and educational standards, and this will result in the active control of population increase while improving the peasant population's quality.

The development of the commodity economy makes it necessary for the peasants to get a better education and know more about science and technology in order for them to survive and triumph in the commodity economy. Facts prove that those who have been very successful and are the first to become rich during the development of the commodity economy are mostly the "intellectual-type" who are fairly well educated, highly adaptable, good at manipulating the law of value, and who know their respective businesses, are well-informed, and are smart and decisive. For example, most key personnel in the specialized households and key-point households in Liaoning which earn more than 10,000

yuan a year have a better than junior middle school education. The peasants themselves have a saying, "In farming and growing crops, to produce 300-400 jin of grain requires land; to produce 700-800 jin requires labor; and to produce more than 1,000 jin requires intelligence." As the commodity economy develops, the peasants have come to understand the necessity of culture and science and the urgency of acquiring knowledge.

The amount of education is a determining factor in women's reproduction rate. Reproduction situation in Liaoning in 1981 based on the classification of child-bearing age women according to their educational level shows that if the villages increase the amount of education for women of child-bearing age from elementary school level to junior middle school level, the number of women bearing only one child will increase 30.6 percent; the number of women giving birth twice will decrease by 18.4 percent; those giving birth 3 times will decrease by 7.5 percent; those giving birth 4 times will decrease by 3 percent, and those giving birth more than 5 times will decrease by 1.8 percent.

The commodity economy encourages progress, promotes changes, spurs on the backward, and encourages competition, and these in turn force the peasants to seek more cultural and scientific knowledge and become more skillful workers. This is the solid material base for lowering the birth rate.

(D) The development of the commodity economy will further bring economic liberation to the women in the countryside, changing their political and economic status, and in turn help to control population increase and improve the quality of the female population.

One of the social benefits of the rapid development of the rural commodity economy is the finer division of labor in society. It gives full play to and exhausts the potential in the present labor force and lets everybody do what he does best and does his best in doing it, and this helps improve labor productivity. Today, because the rural areas are still dependent primarily on physical labor and simple hand tools for production, a commodity economy made up of individual family operations allows the wife and children to be a part of the operation and allows those who put in more labor time and greater intensity of labor to have the advantage and perhaps make more money as they compete in commodity production. This makes it necessary for women to be set free from their child-rearing duties and learn new skills and experience life in the school of commodity production and exchange, and they also have to become more educated and acquire some technical skills. As a result, women are no longer a secondary work force; they have become bona fide masters of the domestic economies.

During the course of the development of the commodity economy, many talented women have emerged. They display all of their abilities and capabilities. As they

weigh the development of the commodity economy against child-rearing, they set themselves free from the old traditional marriage and reproduction concepts. They say with pride that "we will not be enslaved to reproduction; we want to be the masters who build the family fortune." So, as the commodity economy develops, women are liberated, politically and economically. This not only helps women change their own attitude about having children but also brings greater equality between men and women and builds a strong social concept that sons and daughters are the same. This plays a major role in changing the tradition of preferring sons to daughters and makes the people more aware of birth control.

(E) The development of the commodity economy facilitates the development of society's welfare projects and plays a major role in changing the peasants' concept of children as their old age insurance.

The idea that children are their parents' old age insurance is the important reason why Chinese peasants want many children, especially sons. This is because the state is unable to provide social security for the peasants and will not be able to do so within the foreseeable future. But as the commodity economy develops and the peasants generally become better off, economic conditions now allow the peasants to solve this problem on their own. Today, many rich households with high income are putting their money in the bank, accumulating an old-age pension for themselves.

Most regions with a well-developed, diversified commodity economy can now afford social welfare projects. For example, in Jinzhou District, in Liaoning Province's Dalian City, because it has a well-developed commodity economy, all the retirement homes in the townships are well-run, and every village has a day-care center; 35.7 percent of the peasant households have in-door plumbing. In Daweijia Township's Houshi Village, the average income of commune members in 1987 topped 1,862 yuan, and they have a common accumulation of more than 16.40 million yuan. To alleviate the people's concern over the consequence of birth control, the village has implemented a commune member retirement system. Each retired commune member in the village receives 180-320 yuan in pension each year. It is because the commodity economy of this village is well developed and the collective economy is strong that they can afford a full-line insurance system. They "welcome the newborn, nurture the small, help the young, educate the grown-up, respect and keep the old, and give the dead a proper burial." From birth till death, the people in this village are well taken care of. It is because of this kind of social insurance that the commune members are beginning to discard the old concepts that sons are better than daughters, that they need to have children to safeguard their old age. For 8 years in a row now, the village's birth control rate, only-child rate, and late-marriage rate have been 100 percent.

(F) The development of the commodity economy has a positive effect on reducing the population reproduction difference between town and country and has changed the pattern of rural population reproduction.

There are differences and conflicts in population reproduction between China's rural and urban areas. In essence, they are the economic, cultural, scientific and technological, and living standard differences and conflicts reflected in population reproduction. How can we minimize this difference promptly? Experience proved that developing the rural commodity economy vigorously can be very effective.

The development of the commodity economy sees no boundary or regional limitations. The better developed the state of commodity production and circulation, the more active and frequent the circulation of materials and the more mobile the population between town and country. Today, there is still significant disparity between China's urban and rural areas, but as the development of the rural economy gradually broadens, and as the urban economy spreads out, commodity production will acquire greater depth and breadth through cooperation with other units and by importing from abroad. This will have a positive effect on mitigating the differences between town and country and accelerate the historic process of turning the countryside into urban areas, and in turn, in different ways and at different levels, this will change the rural population from the transitional mode to the intensive mode of reproduction.

#### IV

The above analyses lead to the following conclusions:

A. As the rural commodity economy develops, the peasants will become richer and will want to have more children, especially sons. This is a historic and natural phenomenon in the early stage of socialism as we make the transition from the self-sufficient and semi-self-sufficient economy to a commodity economy. From the long-term perspective, as the commodity economy becomes better developed and the peasants get richer, traditional reproduction concepts such as "the more sons the more blessed" and "sons are better than daughters" will be reshaped in many ways until people eventually change or control their old reproduction concepts and behavior. This is also an inevitable process. People's subjective activity means they will not sit and wait for things to happen; they have a sense of urgency and will actively create possibilities and strive to shorten this "transition period." For this reason, we must seize the rural areas as the critical point and make a serious effort. We cannot relax now.

(B) To speed up this "transition," besides the economic foundation, we must reinforce our socialist civilization constructions comprehensively and accomplish stricter birth control than what the economy calls for.

The development of the economy in itself is an effective "birth control pill." But we cannot sit back and wait for the economy to develop. We must take spontaneous action to regulate reproduction. The experience of well-developed nations have demonstrated that this is a long and arduous process not without setbacks. We have little time to lose. We must redouble the effort and focus on production as well as reproduction. During this "transition period," besides developing the economy, more importantly, we must rely on the superiority of socialism and on the party and the people's unanimous will, concerted action, and unified policy to control the accelerated increase in population even beyond what the economy calls for, without waiting for the economy to develop. I believe this is what "extra-economic control" means. This is not only a special feature of Chinese-style family planning but is also the Chinese people's glorious undertaking and their valuable contribution to mankind.

For this reason, we must address the peasants' education as a serious issue. We must promote ideological education among them arduously and meticulously and increase their consciousness about family planning. The commodity economy which is flourishing in China's vast rural areas is providing us with the positive economic condition for advancing the socialist spiritual civilization, for the masses to educate themselves, manage themselves, and liberate themselves.

(C) To develop rural commodity production vigorously and make the rural economy even more prosperous and the people even richer is the basic step in controlling total population and improving the quality of the population. We must make good use of this "historic opportunity" to solve the many new problems which have emerged during reform. We must develop commodity production and circulation vigorously and further improve the rural economy.

(D) A lesson we have learned from the past is that if population "takes off" before the rural economy "takes off," it would only bring tremendous pressure on the rural economy and the nation's economy as they try to "take off." Today, guided by the series of general and specific policies promulgated since the Third Plenary Session of the 11th Party Central Committee and pushed forward by the impetus of the commodity economy, China's rural economy has successfully "taken off." It must counter the pressure of population gradually and turn this pressure into a driving force and push ahead at full speed. The channel that leads to a modernized socialism with Chinese characteristics is open to us.

#### Footnote

1. Extensive population reproduction means high birth and mortality rates and low natural growth. Intensive population reproduction means the "three low" type of

reproduction. See Cao Jingchun's "On the Modernization of China's Population Reproduction" in "Selected Essays From the Third National Science Symposium on Population," page 220.

## PRC MEDIA ON FOREIGN ECONOMIES

**Reforms in China, Soviet Union Compared**  
40060478 Shanghai SHIJIE JINGJI DAOBAO in Chinese 3 Apr 89 p 14

[Article by Wang Yizhou 3769 6654 5297: "Identities and Differences—Comparison of Chinese, Soviet Reforms"]

### [Text]Part One: Identities:

China and the Soviet Union—two socialist countries—once both had a system of an identical structure. In the two countries there appeared what Kornai called the "economy of shortages" in which there was formed an economy of low efficiency and a low people's standard of living and in which there occurred a series of problems in the proportion and distribution of prices. Also in the two countries there arose the "worship of the state" as described by (?Fulannipuji [1715 5695 1441 5412 1015]), making the party and the government inseparable and the government and the industrial enterprise inseparable. The leader of the communist party was considered omnipotent and sacred, and the state was placed above the society. In the two countries paramilitary social organizations and forms of mobilization and an "identity of interests" were formed, and a sealed-off, conservative, imperious political ideology was practiced. Even the spearheads of criticism in the two countries were identical. For example, China called New Democracy a "soman with bound feet," and the Soviet Union said Social Democracy was "worse than fascism."

In China and the Soviet Union, the traditions of feudal autocracy were similarly ingrained, long standing, and well established. Before the revolution Czarist Russia was considered the most barbarous feudal-military empire in modern Europe, and before liberation China was a semifeudal, semicolonial society. In no matter what aspect, there existed an enormous chasm between these two "truly socialist societies" and the post-capitalist society envisaged by Marx. People easily found the historical threads running from Peter the Great to Stalin, from Qin Shi Huang to Mao Zedong. It is also not difficult for us to discover, for example, certain similarities between the "village community" system in Russia in the 19th century and the "people's commune" system in China in the 20th century.

In each country, after the death of the "sage" his divine ruling position was likewise shaken by the people. The 20th CPSU Congress in 1956 and the subsequent "anti-Stalin movement," and the 3d Plenum of the 11th CPC

Central Committee in 1978 and the subsequent movement to emancipate the mind, constituted the most powerful challenges to the "orthodox school" in the history of the socialist system in these two great nations. Each challenge raised the curtain for new development in its own country.

### Part Two: Differences

First, let us look at China's superiorities and advantages.

In comparison with the Soviet Union, in China there has been a fairly large movement for the reform of the economic system; and in real economic life, particularly in the supply of daily consumer goods, more tangible progress has been made. China encourages economic competition between all areas; all kinds of phenomena in the market economy, to differing degrees, are sprouting and growing to maturity. As of now, the Soviet people are still trying to find in Lenin's teachings the true meaning of reform. They tenaciously defend the basic theories and actual framework of the planned economy. In the reform they pay more attention to "making planning scientific," and they take a hesitant, wait-and-see attitude toward the mechanisms for market competition. In the reform of China's agriculture (especially in the last several years), there have been tangible successes. From first to last Soviet agriculture has been a part of the economy for which there has not been true concern. Even if officials throw in a lot of funds to solve the problem of low efficiency, to say that this is showing concern for the peasants is not as good as saying that their purpose is to improve the supply of agricultural goods to the cities. Up to now agriculture remains a domain in the Soviet reforms in which the benefits are the smallest and the changes are the slowest.

A very important reason for all the differences in Chinese and Soviet reforms is their different attitudes toward commodity production. Although in the history of China there has been the practice of overemphasizing agriculture and slighting commerce, overemphasizing the "root" and pruning the "branch," in modern times, following the growth of capitalist elements, the Chinese people have gradually become familiar with and accepted the law of commodities, and this sense of identity is especially distinct in the southern and coastal regions. The Soviet people and the Russian people are different in this respect. Generally speaking, they have an instinctive attitude of abhorrence and rejection toward business and businessmen. In old Russian stories Jewish people were often linked with business, which was considered a not very honorable way of making a living.

Even though the two countries equally suffered from the looting of ultra-left revolutions, there is a continuity in time between China's cultural revolution and the current reforms, and so the Chinese people's keenly felt pain is quite evident. Today, over half a century has passed since the "Great Purge" in the Soviet Union, a half

century during which there was the "Great Patriotic War," for which the Soviet people have good cause for pride and which was a "geological fault" of the times about which there are for them complex feeling of both grief and joy. Therefore, there was a distinct difference in the original motive force for the reforms in the two countries—the Chinese reforms were mainly caused by pressure from the people, while most of the Soviet reforms had their source in the "higher-ups."

Finally, a fact that is obvious to everybody is that the two countries are both multinational states, but that within the great family of the Chinese nation, with the Han nationality as its main part, there have always been a tradition and a relationship of friendship. Between the more than 120 nationalities in the Soviet Union there are serious contradictions and frictions in culture, religion, and psychology. Today, the disputes between nationalities have caused much more trouble for the reforms in the Soviet Union than for the reforms in China. This phenomenon provides a logical interpretation for other phenomena: All local governments in China enjoy a fairly high degree of autonomy; in the Soviet Union there is a higher degree of control and concentration of state power.

Now let us look at some Soviet superiorities and advantages:

Compared with China, the Soviet Union was the first country to take large strides in reforming its political system. It not only effected large-scale replacements in personnel, organizational, and propaganda organizations; but also, from the angle of openness and the building of the legal system, it provided powerful safeguards for the changes that are now taking place. Some scholars have made the evaluation that "the Soviet Union first legislates and then reforms; China first reforms and then legislates." Although this is a different form of exposition, it points to the different degrees of attention to the law paid by the two countries. With respect to the news media, no matter what the actual results are like, the degree of freedom permitted to Soviet public opinion circles is much higher than that permitted in China.

The Soviet reformers take seriously counter ideas about historical questions. Their slogan is "history should not remain a blank page," and they give expression to the Soviet people's courage and depth with regard to the reevaluation of Stalin, as well as the rehabilitation and exoneration of Bukharin and others. They combine a close look at the past with a transformation of reality and a move toward the future, and they consciously place in a higher position the reform of the political system and the changes in the ideological realm. In China, at the beginning of the reforms there was enthusiasm and earnest discussions about "bringing order out of chaos" and there was the "Resolution on Certain Historical Questions." However, in the past several years, for

various reasons, the officials have blocked study and debate on contemporary history and have retained certain, important "forbidden zones."

By comparison, we discover that the Soviets are fairly particular about the penetrating, rigorous, and even perfect quality of theory. A characteristic European rationalism dominates their reform thinkers. They would rather slow down certain necessary changes in order to make the discussion of issues a little more penetrating and to see prospects a little more clearly (although this can never be the case). Chinese are more practical and "opportunistic." Their practical and rational spirit of tradition and the Oriental emphasis on natural instincts in practice often make them "grope for stones to cross the river" and "first do something and then talk about it." These differences bring both advantages and disadvantages.

In historical and natural "inherited genes," the Soviet Union is clearly superior to China. First of all, relatively speaking, the Soviet Union is a country with a sparse population and a vast territory with abundant resources, and it has a fairly large latitude in moving around natural resources and funds; China is a country under heavy pressure from its excessively large population, its natural resources are in short supply, and its reforms are seriously restricted. Next, through its "primitive accumulation" in the thirties the Soviet Union laid the foundation for its industrialization, and its main task in the reforms is to make its economy and efficient commodity economy. China is a backward agricultural country, and at the same time it faces the twin difficulties of industrializing its economy and making the economy a commodity economy, but it can no longer use Stalin's way of expropriating the funds of agriculture and light industry by heavy taxation. Finally, as a European country the Soviet Union has a considerable tradition of modern civilization, and the cultural quality and educational level of the masses of its people are fairly high. Although splendid achievements were made in China's ancient civilization, the line of culture from then to modern times has become clogged, and the long period of political turmoil and mistakes in policy-making decisions has exacerbated the crises in culture and education, science and technology.

### Comparative Study of Inflation in Socialist Countries

40060396 Tianjin NANKAI JINGJI YANJIU in Chinese  
No 1, Feb 89 pp 47-51, 24

[Article by Li Jiaxiang 2621 1367 4382, lecturer, Department of Political Education, Tianjin Normal University: "Analysis of How Yugoslavia, Poland, and Hungary Deal With Inflationary Problems—Comparative Study of Inflation in Socialist Countries"]

[Text] By using a comparative method to study inflation problems in socialist countries, people have seen that countries undergoing reform at a greater pace all experience inflation demonstrated by a continuous steep rise in

prices. However, I feel that a careful study of the way Yugoslavia, Poland and Hungary dealt with this problem will show a common thread, which is that dealing with inflation has been very difficult. This article attempts to present a superficial analysis of their difficulties for the benefit of those in China who are studying inflation, and for those who have the responsibility to deal with and correct inflation.

### **Present Status: Difficulty of Practical Measures**

Yugoslavia has had a long history of inflation. From the early 50's to the early 60's, the annual inflation rate was 4.1 percent. In the years that followed in the 70's, it took a steep two-digit rise, reaching 30.4 percent in 1980. Because of the serious threat to economic and social stability and development engendered by acute inflation, the Yugoslavian government began to deal with it in the early 80's. In 1981, a committee to study the problem was established directly under the federal republic's legislature, and issued its first document "Guidelines to Fight Inflation" the following June. A 1983 directive for a comprehensive plan to control inflation entitled "Long-Term Guidelines for Economic Stability" was also passed by the legislature, its most important features being a method that set new prices, a reestablished price control mechanism, and a multilayered price oversight network to strengthen the role of the government in price intervention and supervision.

It also called for reduced spending to avoid a deficit through control of credit and borrowing to cut down the volume of new currency issue, reforming the basic structuring and investment system to reduce the number of basic construction commitments; strengthening the management of foreign debts and foreign exchange through a liberal policy of foreign investment to turn around the unfavorable international balance and to lower the foreign debt; reducing the taxation of economic agencies to improve the system of income distribution and spending, and increasing enterprise retention of income to stimulate increases on the supply side. According to the thinking at the time, the rate of inflation was expected to drop to 10 percent by 1985, but the guidelines were not followed closely. As the result, the rates of inflation in Yugoslavia from 1981 to 1985 were 46 percent, 29.5 percent, 39.1 percent, 56.7 percent, and 75.7 percent, respectively, showing a tendency toward a steep rise.

Faced with these conditions, the Mikulic government again issued some orders during June and July 1986, which stressed greater and tighter overall price control. From February through March in 1987, the federal government followed with four decrees restricting consumption, and issued new rules controlling bank loans and credit. On 14 November of the same year, the Yugoslavian government also promulgated new guidelines regarding inflation, which, while adhering to some of the original policies, proposed some new measures

related to increasing economic benefits, reducing administration expenses, changing economic structure, encouraging exports to gain foreign exchange, and economic development of private enterprise etc., and for a period of time, froze prices and personal income. But, accompanying these frequent plans that appear every so often, is the fact that after the mid-eighties, inflation just became increasingly rampant. In 1986, the inflation rate exceeded 80 percent, and it broke the three-digit mark at 167.4 percent in 1987, and reached 250 percent in 1988. This continuous rise over a long period of time without any drop is seldom seen in the world today.

Since 1982, Poland also experienced an acute surge in inflation, the market price for consumer goods rising to 104.5 percent in 1982. Because of this, the government drafted guidelines on 23 March the following year to fight inflation, and established a special office to carry it out. Important measures in the guidelines included reduction of administrative personnel in government and other enterprises, curtailing wage increases not commensurate with work performed to control demand and to reduce capital investment; exploring the potential of production agencies to increase market supply as much as possible; confiscating enterprise income derived from excessive price increases; and to strengthen management of market prices and credit, by stipulating that only enterprises with payback capability could apply for loans. After these measures were effected, and the inflation rate did drop in 1983 and 1984 (from 21.4 percent to 14.8 percent), it was still in the double-digit range, and from 1985 on, it showed a tendency to rise again: 15 percent in 1985, 17.5 percent in 1986, and 26 percent in 1987 (JINGJIXUE DONGTAI [ECONOMIC NEWS], No 9, 1988).

Because the results of these efforts at control were not very great, on 11 February 1988 the Polish parliament passed "Outline of Second-Stage Measures for Economic Reform," which listed a balanced economy and controlled inflation as most central to reform at that stage, and as one of the most practical goals to reduce inflation to single digits by 1990. To achieve this goal, besides revolutionary measures to control demand and stimulate production, a "price-income policy" was proposed as a method to help residents adjust to higher prices by granting them a cost-of-living supplement. In the end, it was expected to reduce the state's financial burden and financial deficit, and to bring inflation under control. However, this reform was not successful, and the 1988 inflation rate was 34 percent over the plan's estimate, and the resulting rate was 50 percent for the first 5 months.

In Hungary, moderate inflation persisted most of the time, beginning with economic reform in 1968 through the 70's. However, toward the end of the 70's, conditions changed, and the consumer product market index rose to 9 percent in 1979 and 1980, and from 1981 to 1985, the average rise was 6.6 percent. Because of this, for 1985-1986 Hungary decided to take another step to accelerate

economic reform in depth to resolve various problems that included inflation. Important measures included initiation of personal income tax, levying a wage penalty tax against enterprises that paid wages over scales set by the state; increasing the interest rate on long-term savings of its citizens, and even freezing wages temporarily to control demand; reforming the banking system to cut off abnormal and excessive currency issue over amounts planned; strengthened legal oversight to fight market monopolies and hoarding for speculation; and restriction of free pricing by private businesses to strengthen price control; gradual adjustment of unreasonable prices, and promotion of bankruptcy, a lower business tax rate and increased profit retention to give business enterprises more weight and stimulate production. However, inflation over the last 2 years has not moderated any, but is showing a tendency to rise instead—8.6 percent in 1987, and an estimated figure as high as 15 percent for 1988 (SHIJIE JINGJI [WORLD ECONOMICS], No 11, 1988).

#### Causes: Restriction by Many Factors

While the causes for the unsuccessful control of inflation by Yugoslavia, Poland, and Hungary may not be identical, they are directly related to many factors. They are seen, not only in their economical, political, and social context, but from the standpoint of economics, we can see many restricting factors. This article proposes to make a practical analysis of this problem from an economic perspective.

1. Effective control measures are difficult to achieve because of interference by various realistic factors.

In the first place, lack of self control has caused wages and prices to alternately spiral upwards. Imposed control of wage income is a common method used by these countries to suppress demand and weaken the driving force behind rises in product prices. However, because the power of production is unclear under the present economic system, the risk mechanism of management is unhealthy, and business enterprises still do not have a strong self-management mechanism. Conditions that give wages a big boost without consideration for increased work productivity and profit still exist. In June 1986, Yugoslavia froze personal income, and by the end of the year when the freeze was lifted, many business enterprises were so concerned that the government would come down again with a similar order, that they gave their workers a sizeable raise in salaries and wages. According to the Yugoslavian premier Mikulic, the rate of the average wage/salary increase in December was no lower than 22 percent (SHIJIE JINGJI YICONG [SELECTED TRANSLATIONS ON THE WORLD ECONOMY], No 9, 1988). Looking for connections in high places to make an impression, some enterprises operating at a loss went as far as borrowing money from banks or selling production materials to cover wage increases given their workers.

Similar situations also exist in Poland and Hungary. From 1981 to 1986, market retail prices and annual income for its citizens showed corresponding rises at an annual average of 29.3 percent and 29 percent, respectively. One of the causes for this alternating spiral was business giving in to worker pressure for sizeable wage increases without considering their effect on factory production. When pressure of consumer demand cannot be suppressed, it is obvious that it will continue to pull consumer prices upward.

In the second place, the coexistence of old and new systems provides opportunities for unreasonable price rises. Take the situation in Poland. At present, two systems, the old and the new, coexist and interact in the overall national economy and in each enterprise. Just take prices. Negotiating is common in transactions for a little more than half of commercial products sold, while the remaining less than half is sold at state-set prices. At the same time that those enterprises which produced goods sold at negotiated prices can obtain cheaper raw materials and electrical power at costs set by the state, they also reap great profit by selling their manufactured goods at market prices. On the other hand, those enterprises producing goods sold at officially set prices receive large subsidies from the state. Under such conditions, the large output value and profit for these two types of business enterprises added together, are not, to any great degree, guaranteed by products. According to official Polish statistics in 1987, three-quarters of the new increased output value among enterprises is derived from higher prices (JINGJI YU XIEHUI TIJI BIJIAO [COMPARISON OF ECONOMICS AND SOCIAL SYSTEMS], No 5, 1988). The increased wages given workers because of high prices, is without doubt, the money that makes inflation more acute. Furthermore, under pressure of increased personal income in a material production environment, the state has to raise wage income in the non-material production environment, and increase expenditures from the social benefits fund as well. After the income for workers in all fields has been raised, business enterprises in the material production field are prepared to advance prices of goods another notch, and a vicious new cycle begins again.

In the third place, macroeconomic control is powerless, and it is difficult to make corrective measures mesh. Dealing with inflation not only requires emergency measures, there must also be a macroeconomic mechanism of market control ordered by the government, to avoid miscellaneous disruption that hinders long-term effectiveness. Yugoslavia's self-governing system indicates that the state had defaulted on its economic duty of planning and management over a long period and lacked regulatory procedures for flexible financing, taxation, credit, etc. The task of macroeconomic regulation in a society seeks to depend on various independent organizations at various levels to realize this. The results show the independent contract is difficult to realize and carry out because of repeated negotiations, which in turn lead



to the macroeconomic approach losing control, and to long-term imbalance of economic proportions. This makes it difficult to provide a sound base for radical correction of inflation.

On the other hand, it is difficult for even some emergency measures to fit into the solution. For example, applying the principle of self-government in Yugoslavia made the banks subject to management and control by joint labor organizations. Because of their immediate self interest, joint labor organizations set the interest rate for loans lower than the rate of inflation. Even though this bad feature of negative interest continued into the 80's before the government realized it, and tried to correct it, it was never resolved under the present system. From 1981 to 1986, the highest interest rate for each year was 10 percent, 15 percent, 28 percent, 55 percent, 66 percent and 61 percent, respectively, each figure lower than the year-end inflation rate of 46 percent, 29.5 percent, 39.1 percent, 56.7 percent, 75.7 percent, and 88.1 percent for their corresponding years (JINGJIXUE DONGTAI [ECONOMIC NEWS], No 8, 1988). On basis of the general experience of various countries, turning the negative interest rate around was an effective way to counter inflation, but Yugoslavia was unable to do even this. According to calculations, because of the increasing distance between the two rates, savings accounts in Yugoslavia lost one-third of their capital value in 1986 (GUOWAI JINGJIXUE WENXIAN ZHAIYAO [SELECTED ABSTRACTS OF FOREIGN ARTICLES ON ECONOMICS], No 5, 1988). For this reason, using a negative interest rate to control savings and to stimulate the credit demands of business enterprises and consumers are, without doubt, two opposite approaches for countering inflation through reduced demand and controlled credit, and the issue of more new currency.

In the fourth place, stagnant economic development causes tightening policies to fall into a difficult situation. Not only is inflation control restricted by the present system, it is also affected by the prevailing economic environment. If economic development is rapid, there is more room for option selection. On the contrary, if economic development is unfavorable, implementing tightening policies that curtail productivity will encounter greater difficulties. In the 80's, when Yugoslavia and Hungary implemented counter inflation measures, they were faced directly with economic slowdown and even stoppage. From 1981 to 1987, the economic growth rate in Yugoslavia was only one percent. In Hungary, from 1975 to 1985, the average growth in income by its citizens was not even one percent, and a negative growth was shown for 1985, and a mere 0.6 percent growth for 1986 (SHIJIE JINGJI YU ZHENGZHI [WORLD ECONOMICS AND POLITICS], No 9, No 5). The picture of economic stagnation and growth naturally causes governments concern, for it is difficult to take drastic measures for correction without causing some harm, a situation which unavoidably slows down the ability to control inflation.

In the fifth place, measures effected by self-seekers cancel out any effectiveness any control may have. Careful observation shows inflation rates for Poland and Hungary rising higher in certain years, often caused by intentional price increases in certain products set by the government. In 1982, the inflation rate in Poland reached 104.5 percent, and showed another sharp rise in 1988. In Hungary, the situation was similar, with inflation in the two-digit range during the past two years. During the course of inflation control, the government's active role in raising prices has objective reasons. To stimulate producer activity, most countries have been raising producer's prices frequently over a long time, but to maintain price stability, have not raised consumer prices at all, or only raised them a very little. The differential between the two is made up by a subsidy from the government treasury. But comparison of these two countries in the 80's with respect to this approach shows an unbearable burden. At present, the total of various subsidies doled out in Poland is already 30 percent of the state's budget. In 1986, the food subsidy was 433,000 million zlotys, and public assistance and support of resident service activities amounted to 318,000 million zlotys, which together comprised 15 percent of the state's budget (JINGJI YANJIU CANKAO ZHILIAO [REFERENCES IN ECONOMIC RESEARCH], No 14, 1988). In Hungary, various subsidies in 1986 added up to a total of 176,000 million forints, about 30 percent of the state's budget outlay, and about 58 percent of the business enterprise profit returned to the state (SHIJIE JINGJI YU ZHENGZHI [WORLD ECONOMICS AND POLITICS], No 5, 1988).

Subsidies granted in excess of needs is also a factor pushing prices up. If we want to prevent abuses precipitated by inversion of the purchase and sale relationship, the government must allow the indirect subsidy to become an open subsidy when the producer price or the purchase price rises to a certain level, to raise the consumer price. To maintain gradually increasing subsidy expenditures, the state can only ask prospering enterprises for more taxes, or make up for it with deficit financing, thus sinking into inflation's "delta of a hundred wishes, circumscribed by inflation—subsidy—taxation or deficit—inflation." To shake off such a vicious paradox, the state's practice of raising prices on certain products is a means for basically controlling inflation in the long term, though done as a last resort. During the last two years, Poland has been striving to implement a "price-income policy" which is based on this approach. However, within a certain time frame, this method of raising prices to resolve a rise in prices cannot avoid it becoming a large factor that cancels out the effectiveness of other control measures, to form a self-contained paradox in the control plan. Besides this, the government's price fixing can have a problem with selection timing. If objective conditions are not present, it comes across as a strict mandatory measure counter to its original intention. In early 1988, Poland lacked the necessary material guarantees and effective mechanisms to restrict wage growth, and implementing price fixing



with inadequate estimate of social pressure not only lead to the ultimate failure of action taken, but a further sharp increase in inflation.

Yugoslavia also encountered a similar problem. Following several requests by the International Monetary Fund, Yugoslavia implemented further currency control currency in 1983 and set aside pricing measures at the same time. However, when reform and the business enterprise system did not mesh together under unhealthy market conditions, uncapping the lid on prices only added more oil to the fires of inflation which greatly cancelled out the action of other control measures. As the result, it was not possible not to let the government resume mandatory control of prices which, in turn, provided new obstacles to controlling inflation in the future.

2. Continuation of many accumulated historical abuses make it difficult for control measures to obtain quick results.

While inflation in Yugoslavia, Poland, and Hungary appeared at different times and with different severity, the factors causing this problem have had a long history. The difference is in the different forms taken to hide it before price fixing was set aside. Furthermore, whether or not inflation follows a self accelerating rise once it has taken place, it can only be seen in these problems that have accumulated over a long period. They cannot be eliminated in a day, and may continue to churn up waves of inflation to make its cure a time-consuming process.

First, it is difficult for the increase in consumption to come down. Preceding consumption is the general cause of inflation in these three countries. Take Yugoslavia. Consumption rose in the 50's and has continued up to the present. According to statistics, from 1952 to 1980, growth in personal consumption averaged 5 to 6 percent each year, but productivity for the same period only showed an average increase of 3.9 percent (YUGOSLAVIA: 1945-1985, in Serbo-Croatian, p 133). Comparison of workers' wages in Hungary in 1945 with that in 1970 showed an increase of 172 percent, among which wages for industrial workers showed an increase of 179 percent, and for agricultural workers, 166 percent. But growth in income of its citizens, industrial output value, and agricultural output value only showed increases of 66 percent, 78 percent, and 46 percent, respectively (JINGJI YANJIU CANKAO ZHILIAO [REFERENCES IN ECONOMIC RESEARCH], No 14, 1988). Because of this, Yugoslavia, Poland, and Hungary are adopting various measures designed to turn around previous conditions of distribution and consumption to fight inflation. But there is no way to immediately suppress and assimilate the inflation formed over a long period of time. Some strong and harsh methods are restrained by restrictions of the social environment and the present system, so it is difficult to see any outstanding results in a short time.

Second is the difficulty posed by the foreign debt load. In the early 70's, Yugoslavia, Poland, and Hungary began borrowing money on a large scale, which gradually led them into the debt payment period in the 80's. To pay off foreign loans, reducing total imports and cutting down consumption to increase exports became the important factor behind inflation in these three countries. As much as these countries took measures to increase exports, improve foreign loan management etc., during this phase of inflation control, the burden of foreign loans was already a fact which showed a tendency to become an even greater burden. After Yugoslavia entered the 80's, its annual foreign debt payment still ranged between \$4-5 billion, including principal and interest. This comprised 40-45 percent of the foreign exchange income for the year, a figure that greatly exceeded the internationally recognized safe limit of 25 percent. From this, it fell into the difficult situation of incurring new debts to pay off old debts, thereby increasing the debt load. Even as it paid off several billion U.S. dollars on foreign loans each year in 1980 and 1981, the reduction in overall foreign debt only amounted to \$1.5 billion. It is estimated that within this century, Yugoslavia's total foreign debt will not be reduced by any significant amount (JINGJIXUE DONGTAI [ECONOMIC NEWS], No 7, 1988).

Poland's total foreign debt had also exceeded the internationally recognized safety limit as early as 1975; its foreign debt payment, including principal and interest, amounted to more than 90 percent of its export foreign exchange payments (JINGJI YANJIU CANKAO ZHILIAO [REFERENCES IN ECONOMIC RESEARCH], No 193, 1987). At the present time, it is thrown into a difficult situation of making payments on time. The burden of a serious foreign debt which does not moderate, will continue to affect the domestic market balance and increase the shortage of commercial products, and provide conditions for a continuous rise in product prices.

Third is the difficulty faced in eliminating the imbalance in the economic structure. Besides imbalance in gross economic output as a factor behind inflation in countries such as Yugoslavia, Poland, etc., inflation is also related to a loss of balance in the domestic economy over a long period. Raw materials, the "bottleneck" in development of energy sources, and in coordination with the processing industries not only move commodity prices upward, but because of serious dependency on foreign countries, they also make it easy for import inflation. The appearance of imbalance in important proportional relationships during development of the national economy is related to numerous factors such as the present system, economic development strategy, etc. Add to this changes in the great adjustment that is inseparable from property structure, which, quite naturally, is difficult to realize within a short period, so structural inflation continues to drag on.

#### Indications: Selection of a Proper Decisive Policy

After summarizing the counter inflation experiences of Yugoslavia, Poland, and Hungary, we can find some

indications that are of reference value to China's efforts to study and control inflation. Their important conclusions are listed below.

1. Under their present economic systems, socialist countries find it difficult to control inflation within acceptable limits, and governments do not respond by adopting active inflation policies. Whether inflation benefits economic growth or not is a problem debated unceasingly by international economists for a long time. In recent years, views on this problem in China are also varied. At present, many scholars have moved from the viewpoint that the shortage economy in socialist countries is different from the production surplus economy of western nations, to negate implementing this policy. There is no need for this article to be redundant, as it only intends to perceive the problem from the viewpoint of difficult control in Yugoslavia, Poland, and Hungary to further prove that their present inflation policy is unworkable. Regardless of the cause they espouse, governments that consciously implement such a policy do not necessarily approve the vicious cycle of inflation. Rather, they propose to allow it within certain limits to stimulate economic growth. However, up to the present time, socialist countries have not come up with such a successful model, and the three countries in eastern Europe have shown the opposite situation. Since reforms were promoted, Yugoslavia and Hungary have always pushed a policy of low inflation which went out of control beginning in the early 80's.

Study of causes showed that besides inflation having its self-intensified inherent patterns, more important were the interference controls found in economic systems of present-day socialist countries and the obstructive mechanism of these controls. In the first place, unhealthy enterprise systems, unclear property rights, and lack of self control not only sharpened the hardness of present consumption, it also continued to generate new consumption. In the second place, market development was unhealthy, and it was difficult for economic problems suited to nations with well developed economies to be effective here, which forced the chief means for control into the administrative arena. However, administrative procedures provided only emergency help which nurtured an even larger gush of expansion that fell into a vicious cycle of "death with unification, confusion with release," causing inflation to become increasingly worse with alternating forms of openness and subterfuge. In the third place, the government's macroeconomic mechanism was unhealthy. During the course of track-changing between the new and old systems, many management "vacuums" existed, to provide further opportunity for confusion in the economic sphere. The significance of these unhealthy situations shows that the difficulties in controlling and curing inflation under socialist conditions in their present stage is only a transformation of the overall difficulty facing reform of the whole economic system. While active implementation of an inflation policy can temporarily exert certain stimulative effects, it requires giving up long-term stable development in the

economy and dealing with increasing difficulty of systemic reform as the price. Therefore, it is only a hope that is not feasible in actual practice.

2. Correction of inflation under socialist conditions still faces the threat of stagflation, and China must have a clear understanding of this possibility. According to traditional theories, "economic stagflation" occurs only in capitalist countries after World War II. However, the present situation in Yugoslavia and Hungary shows that coexistence of economic stagnation and inflation is already a fact. The causes, characteristics, and effect, etc., of stagflation appearing in socialist countries are, without doubt, quite different from that occurring in capitalist countries, but there are similarities which are closely related to practical measures to counter inflation. By tightening non-productive consumption demand, society's buying power is reduced and workers' productivity is lowered. Strengthened control and great pressure on basic construction can reduce the aftereffects of production. Raising interest rates can add to the burden born by many enterprises, for them to face the danger of loss and even bankruptcy. Cutting down on imports and increasing exports to reduce the foreign debt can increase domestic shortages, causing enterprises to operate at less than full capacity. Strict control of credit and funds withdrawals can make it difficult for some enterprises to maintain normal production because they lack cash flow. All these situations will become factors limiting supply and productivity.

Conversely, the slippery slope of comparatively great economic growth can interfere with the decisive policy of correcting inflation, so that correction and development become two less than perfect matters. This has been confirmed by realities in countries of Western Europe. From this we can see that economic stagflation is a special result of the government's economic move to regulate the currency, which cannot possibly occur under socialist conditions. In China, while heated economic growth is an important paradox, in countries where the state plans for the people's livelihood, large and middle-sized business enterprises are more likely to be affected during the course of inflation correction. As a result, the danger exists for a fall into economic recession or even serious stagflation. Toward such a threat, we must be clear-headed and cool, by intensifying our studies on economic stagflation and its solutions beforehand, and even more importantly, to grasp beneficial conditions of the present to avoid falling into this pit.

3. To correct inflation requires determination and coordination of measures taken. The course of countering inflation in Yugoslavia, Poland, and Hungary demonstrates that the pathology of correction under their present system is full of difficulties, not a course that is successfully completed after one "labor pain" with teeth clenched. For this reason, we must establish a faith over a hundred times to eliminate various interferences, until the objective of a lasting solution is achieved.

At the same time, corrective measures must be coordinated on an overall scale. From China's perspective, there must first be coordination between measures treating indicators of the problem and those treating the basic problem. As administrative procedures to tighten demand deals only with the indicators, those that improve effectiveness and benefits, and increased supply can correct the basic problem, and sidestep the whirlpool of inflation. Therefore, tightening must abandon the traditional "one stroke" method so it can be closely coordinated with property reform. To greatly develop those high-demand, highly beneficial, and high exchange generating products, we must seize the present opportunity where price reform is not easy to implement, to intensify reform in areas such as enterprise property rights and operation, the labor market, etc.

Secondly, measures taken must prevent omissions. At present, according to the lesson learnt from experiences of the three Eastern European countries, China must determine to resolve problems such as the negative interest rate for bank savings, weak bankruptcy process, price manipulation, etc. In particular, action must be taken for reforms to effect a system of individual fiscal task responsibility by separating those duties between administrative and enterprise entities, and those between central and local authorities, and to establish people's banks according to administrative regions. Only in this manner, is it possible to reduce illogical actions taken by local governments to step up the pace of development and start large-scale construction to achieve high prices for themselves, and to remove the firewood from under burning inflation and prevent the embers from rekindling again.

Thirdly, measures must be of a long-range and anticipatory nature when we consider that correction is not a one-day or one-night process, and China should not be satisfied with a guaranteed short-term plan. A long-term plan should be made for inflation correction. Only in this manner is it beneficial to make viable connections between correction, reform, and development, to avoid losing long-term benefits for temporary effectiveness.

At present, great attention should also be given the problem of foreign debt control. In recent years, the pace of China's borrowing from foreign sources on the local and agency levels has been too fast, greatly exceeding the national economy's development pace for the corresponding time frame. Under the unhealthy conditions of an abusive system of foreign debt control at present, lie potential danger to China's economic development and stability for the rest of the century after the 90's. Only by mastering beforehand the proper control and management of foreign debt, can we avoid following in the steps of Yugoslavia, Poland, and Hungary in such matters. By comparing how these three countries tried to deal with inflation, we have received an important revelation.

## AGRICULTURE

### Good Rapeseed Harvest Predicted

OW2505193789 Beijing XINHUA in English  
0028 GMT 16 May 89

[Text] Beijing, 16 May (XINHUA) China expects to harvest five billion kg of rapeseed this year if no big natural disasters occur in the next two or three weeks, the current issue of "CHINA COMMERCIAL NEWS" reports.

Rapeseed was sown on 47.7 million hectares of farmland in the 12 major rapeseed-producing areas this year. That is 233,000 hectares less than last years area.

However, except in Zhejiang, Sichuan and Guizhou Provinces, the average output rose above last years level, thanks to preferential treatment accorded growers by local authorities.

But the paper gives warning of a possible "rapeseed war" in purchasing as a result of poor market management.

### Agricultural Banks Urge Summer Grain Purchase Funds

OW2505012089 Beijing XINHUA in English  
0536 GMT 24 May 89

[Text] China's agricultural banks have urgently called on local governments to help raise funds for the purchase of summer grain from farmers, according to the latest issue of "JOURNAL OF AGRICULTURE, HUSBANDRY AND FISHERY."

The paper quoted an official of the Agricultural Bank of China as saying that China's agricultural banks must issue purchase loans of 9-to-11 billion yuan from June to August (the summer harvest season) but so far they have collected only 4-to-5 billion yuan—half of the required amount—and are still 6 billion yuan short of the purchase price.

To ensure adequate payment for summer grain, the country's agricultural banks have been asked by the Government to organize more deposits, withdraw more currency from circulation, and readjust the structure of loans.

But, the official said, the agricultural banks alone cannot raise enough money to pay for the grain.

He called on local governments to coordinate the clearing of accounts and to organize special industrial, commercial, and construction banks to attract more depositors.

The paper quoted the official as saying that all people's banks of China should coordinate with local financial departments to see that enterprises clear up outstanding accounts and pay their arrears on loans, in order to ensure adequate funds are available to pay for this year's grain harvest.

**Sichuan's Loan Program for Poor Areas**  
*40060331a Beijing JINRONG SHIBAO in Chinese*  
9 Feb 89 p 2

[By Zhao Yuwu 6392 6877 2976]

[Text] In 1988, the Agricultural Bank of Sichuan Province extended 1,937,000 special-purpose discount loans, totaling 306.7 million yuan, to help the rural poor. Of the total, 122.19 million yuan, or 43.4 percent, were used directly for agricultural, forestry, and livestock production projects in poor areas, projects which could produce results the same year and help meet the people's food and clothing needs. According to statistics on more than 400 projects already completed and put into production, the projects have created 391.33 million yuan in newly added output value; the incomes of aid-recipient peasant households have increased by 530.41 million yuan; 1,385,000 poor peasant households, 71.5 percent of the total number of households receiving help, have been enabled to meet their basic food and clothing needs; and 305,000 poor households, 15.8 percent of the total, have actually begun to prosper.

The Sichuan Agricultural Bank has reformed and readjusted its loan operations. Instead of distributing loan funds among scattered individual recipients as had been the practice in the past, funds were used to finance development projects for entire areas by stages. Of the total amount of the special-purpose loans extended to poor areas in Sichuan Province, 43 percent were directly used for farming projects such as plastic sheeting to cover corn seedlings, the development of flue-cured tobacco bases, livestock and poultry raising, and so forth. Next, the past practice of granting most of the loans directly to households was gradually changed to relying on economic entities, service organizations, and scientists and technicians to guide the poor households out of poverty. Of the total amount of loans granted, 140 million yuan, or 42 percent, were extended to 1,017 economic entities and service organizations. These entities and organizations are fairly well established economically, can take risks on loans, have strong technical resources, and can help many more poor peasant households. Moreover, the Agricultural Bank has changed from simply disbursing loan funds to combining loans funds with needed science and technology and materials. In order to popularize the technique of covering corn seedlings with plastic sheeting in Fuling Prefecture, the bank organized training for 115,000 peasants and supplied 184 tons of plastic sheeting and 129 tons of superior seeds to poor households. To help the poor peasants in Xuyong and Gulín counties learn one or two practical skills, 25 training classes were run, and as many

as 50,000 poor peasants received training in covering seedling with plastic sheeting, livestock and poultry disease prevention, and other techniques.

**Chen Xiwen on Agricultural Problems**  
*40060331b Beijing JINGJIXUE ZHOUBAO in Chinese*  
12 Feb 89 p 2

[Article by staff reporter Guo Yanchun 6753 5333 2504: "Agriculture, Make Your Might Felt Once Again!—Interview With Chen Xiwen, Deputy Director of the State Council Rural Development Research Institute"]

[Text] Since 1984 production of major agricultural products in China, including grain and cotton, has stagnated. Has this been caused entirely by unfavorable weather conditions? The answer is clearly no. How much, then, has the basic national policy of taking agriculture as the foundation been implemented?

Now the shock waves of agricultural stagnation has affected all of the common people. It seems that the position and role of agriculture should be recognized from a new and higher plane.

Recently I paid a visit to Chen Xiwen [7115 6932 2429], deputy director of the Rural Development Research Institute of the Rural Development Research Center of the State Council.

Chen Xiwen noted with deep concern that during the past few years people have been so preoccupied with urban problems they have all but forgotten about the rural areas. Little do people realize that in this big agricultural country of ours, there can be no prosperity in cities without prosperity in the countryside, no industrial development and economic prosperity without vigorously growing agricultural production.

**We Must Pay Attention to Agriculture, Now!**

*The figures showing the decline in grain, cotton, and edible oil production can not fully reveal the seriousness of the agricultural situation. In fact, the situation is so grim that it is threatening the stability of our political power.*

Chen Xiwen said that grain and cotton production, which reached a new level in 1984, has been in a state of fluctuation ever since. Especially in the past year, agriculture was seriously affected by inflation. To make up for the losses caused by rising prices of industrial products, the peasants are trying to increase production of farm and sideline products which command higher prices. This has stimulated the production of some industrial crops and nonstaple food such as meat, poultry, eggs, vegetables, aquatic products, and fruits, but at the same time it has also adversely affected the production of grain, cotton, and edible oil. Let's not forget, in a country with a population of 1 billion, the first priority is to feed the people. In this sense, a steady increase in

grain, cotton, and edible oil production is of vital importance to the steady growth of the national economy. In the past year, grain production dropped 2.3 percent; cotton production was about the same as in the previous year; and edible oil production decreased by an even greater margin. He reminded people not just to look at the figures, but to see the grim social problems behind them.

During the autumn harvest season last year, Chen Xiwen and other comrades of the research institute went to grassroots units in the countryside. They were shocked by what they saw and heard. The most serious problem is that the contradiction between the peasants and the government has become quite acute. The following are the causes of this:

1. Grain purchased by the state last year was often paid with a slip of paper. In some areas, as much as 30 percent of the grain purchases were paid in this way, a percentage rarely seen in the past. How do the peasants feel about that after a year of hard work?

2. Grain purchases are enforced by every conceivable administrative means. As the peasants put it, the purchases are "enforced by five big bodies, backed up by the public security, procuratorial, and judicial organs." The five big bodies are: party committee, government, people's congress, CPPCC, and discipline inspection commission. The practice has antagonized the peasants against the government.

3. The agricultural banks and rural credit cooperatives are unable to meet demands for cash. Their credibility has plummeted to an all-time low.

Chen Xiwen said that a piece of paper for their grain and no cash from the banks, the peasants, awakening in the commodity society, are being driven to the end of their patience. If we push the peasants too far, we have only ourselves to blame for the consequences. Therefore, we should see the seriousness of the agricultural situation in the light of its relation to the stability of our political power. During the natural disasters of the 1960's, it was the rural people who starved. If a food crisis strikes now, the first to suffer could be the city dwellers.

#### **It Is Necessary To Increase Agricultural Input and Standardize Government Actions**

*At present, the investment pattern is increasingly controlled by the law of the market. To guarantee increased input in agriculture, it is fundamental to standardize government economic actions.*

The major reason for the rapid agricultural growth during 1979-1984 was, of course, the implementation through the reform of the system of contracted responsibilities linking remuneration with output based on the household, but the large increase in the purchase prices of agricultural products by the government and the full

utilization of many years of investment in agriculture obviously also played an important role which cannot be ignored. To insure that the peasants' enthusiasm keeps turning into actual agricultural production capacities, it is imperative to constantly renew, expand, and improve the existing basic agricultural facilities.

Reviewing agricultural investments in the past few years, Chen Xiwen told this reporter that investment in agriculture by governments at various levels has been declining. Especially since assuming full responsibility for their own finances, a considerable number of local governments have diverted funds originally earmarked for investment in farmland and irrigation construction. So far the trend has not been completely reversed. It takes a rather long time for large and medium-sized irrigation and water-conservancy facilities and industrial enterprises serving different agricultural needs to be built and produce results. Therefore, the basic agricultural facilities built before the Fifth 5-Year Plan, unless renewed and expanded in good time, will not only limit agricultural growth in the near future, but will become a serious hindrance to agricultural development in the 1990's.

Yet, we often see a strange phenomenon. Governments at all levels are stressing the importance of agriculture, but in making budgets, they are often reluctant to invest their own money in agriculture and always try to get funds from a higher level to meet local agricultural investment needs.

The direct cause of this phenomenon is that investment in agriculture is unlikely to bring great financial returns. Chen Xiwen's analysis is that although agriculture produces extremely great social benefits, its economic benefit is relatively low, particularly the production of staple crops such as grain, cotton, and edible oil. Behind this cause lies the fact that as the market mechanism begins to enter into our economic life, our investment pattern is being increasingly controlled by the law of the market. The decreasing proportions of centrally controlled state revenues, budgetary investments, and investments financed by the state in the past few years are all indications of the growing trend of money markets. Against such a background, investment for better profit is only natural. It should be recognized that the stress on higher economic returns for investment is in keeping with the goal of economic reform. Therefore, distribution of investment funds through the market is a sign of social progress.

Chen Xiwen went on to say that we must see that state finances and urban residents are still unable to accept sharp increases of the prices of grain, cotton, and edible oil, that the proportion of these staples purchased and sold in the market is still quite small, and that their prices are kept low by the government. Because of all this, the production of grain, cotton, and edible oil is unattractive for investment and input and would be at an obvious disadvantage competing for funds in the money market. He stressed that the key to changing the

unfavorable position of grain, cotton, and edible oil production in competing for funds lies not in artificially suppressing the role of the market mechanism in capital distribution, but in clearly defining and separating the economic activities between the government and the enterprises.

There is nothing wrong with enterprises (including peasant households) investing funds obtained through competition from the money market in more profitable production and products, as long as it does no harm to the public interest. What is important is that government investments must be made mainly in fields shunned by the market and enterprises. To regulate the investment pattern by financial means of income redistribution so that the basic fields of production such as agriculture, which brings great social benefits but relatively low economic results, can obtain needed funds for continuing development.

**The System of Contract Household Responsibilities With Remuneration Linked to Output Is the Foundation for Stability**

*The system of contract household responsibilities with remuneration linked to output is still of great vigor and vitality. We must not take back from the peasants the only bit of production and management rights they have and return to the old system we had before the reforms, when the government decided what the peasants should grow.*

"At present, while improving the economic environment and rectifying the economic order, it is an arduous task to increase the production of staple crops such as grain, cotton, and edible oil. Especially with the economic retrenchment and tightening money supply, the peasants are likely to use their funds for the production of more profitable crops in order to keep their income growing. How can the total output of grain, cotton, and edible oil be guaranteed to increase in the coming 2 years? What basic agricultural policies should be made clear?"

Chen Xiwen held that first of all we must adhere to the basic policy of stabilizing the system of contract household responsibilities with remuneration linked to output.

The system of contract household responsibilities with remuneration linked to output is one of the basic achievements of a decade of rural reform and one of the most important growing points for the development of the new rural economic system. However, owing to the fluctuations in the production of major crops such as grain, cotton, and edible oil in the past few years, the system of contract household responsibilities with remuneration linked to output, which has attracted worldwide attention to China's agricultural achievements, is being questioned and criticized. Some people say that small-scale production cannot meet market demands and call for operations on a fairly large scale. Chen Xiwen maintained that grain production has fluctuated in the

past few years mainly because the prices of farm products are too low, dampening the peasants' enthusiasm; and also because not enough money and materials are invested, which weakens the momentum of agricultural development. It is not fair to put the blame on the system of contract household responsibilities. Those who call for taking back the peasants' right to make their own decisions and returning to the old system under which the government told the peasants how to farm will do more harm than good.

He held that land management, on a fairly large scale, can be introduced as a slogan and experimented in economically developed areas, but cannot be popularized yet. At present, it is more important to check the tendency of overclassification in land management than to promote land management on a fairly large scale.

**Can a Permanent Solution Be Found to the Problem of Low Grain Prices?**

*The government can no longer handle the constantly increasing grain price subsidies; the reform of the pricing system for agricultural products should keep to the gradual approach of making use of the double-track system while getting out of it; and whether the second phase of rural reform can be carried out depends on the success of the urban reforms.*

"The low grain prices are hindering agricultural growth. Can the government continue to increase the purchase prices for major agricultural and sideline products as it did in 1979?"

Chen Xiwen held that by increasing the purchase prices for agricultural and sideline products, the government has provided a relatively relaxed external economic environment for the rural areas. However, the price increases are not measures to reform the system of economic operations. They are carried out within the existing economic system by traditional means of regulation and control and through changes in the structure of the central government's expenditures. The purchase prices for agricultural and sideline products are raised with increased state subsidies to fill the gap between the purchasing and selling prices. Thus, with the changes in purchasing prices, the increasing state subsidies serve as a lubricant to eliminate the friction between the producers and consumers of the agricultural products. It is, of course, useful in reducing social tensions and insuring the smooth progress of rural reform. However, these measures are not only too costly, but cannot go very far.

1. The continuing large increases in price subsidies for agricultural and sideline products are making it difficult for the different social and economic sectors to develop in a coordinated way.

2. With social stability maintained by increasing state price subsidies, people are psychologically unprepared to deal with the risks of reform and the readjustment of interests.

3. The constantly increasing subsidies will sooner or later get to the point where the state is no longer capable of paying, and when this happens, all the hidden contradictions will break out quickly.

"When the state is no longer able to pay price subsidies, can grain prices be regulated by the market then?"

Probably not. Chen Xiwen held that steadily growing output of agricultural and sideline products and greatly increased labor productivity in urban industries are the necessary conditions for the reform of the agricultural pricing system. Obviously we do not have these two conditions yet. Especially at present, with mounting inflation and weak central regulation and control, any hasty move to reform the agricultural pricing system is bound to cause a full-scale rapid increase of all prices. And inevitably the peasants will be the hardest hit and the ultimate losers.

Failure to reform the agricultural pricing system hurts not only the interests but the feelings of the peasants, and will be extremely detrimental to the in-depth development of the rural reform.

Chen Xiwen held that for the near future agricultural price reform can only be pushed forward in small but continuing steps designed to solve the contradictions in the process. Even in longer term planning, it is impracticable to expect that all agricultural products can be regulated and supplied by the market. Instead, a mechanism should be set up for the peasants, government financial departments, and urban consumers to jointly bear the burden of agricultural price rises. The "double-track system" for the purchasing, marketing, and pricing of agricultural products should be continued, and efforts should be made through in-depth reform of the urban enterprise system to increase the ability of enterprises and city dwellers to deal with the price fluctuations of agricultural raw materials and most nonstaple foodstuffs.

#### **A Poor Country's Economics Is Agricultural Economics**

*Failure of the peasants is failure of the whole country. Economists, please pay more attention to agriculture!*

Chen Xiwen talked with eloquence. He told this reporter that as a young literature-lover, it seemed accidental that he passed the entrance examination and was admitted to the Agricultural Economics Department of the People's University. As he went deeper into his studies, he began to understand more of the agricultural problems and, at the same time, experienced some deep feelings.

Yes, for a long time, China's peasants have lived at the lowest stratum of society. Generation after generation, the peasants are at the mercy of the vagaries of nature. Only by admittance to an institution of higher education will it become possible for a peasant boy to earn wages and live in a city. In contrast, the city dweller's life seems to be immeasurably better. They don't have to worry about food. From birth to death, they enjoy all kinds of special treatment and state subsidies. This unfair phenomenon has remained unchanged. In the face of this situation, Chen Xiwen said, we feel the great responsibility and heavy burden. It is our unshirkable duty, and our goal, to speak up and work for the peasants.

He said with deep feeling that he can never forget the earnest teaching of an old expert in agricultural problems: Failure of the peasants is failure of the whole country. He appealed for economists to please pay more attention to agriculture!

**Theoretical Discussion of Agricultural Input**  
40060460 Beijing NONGYE JINGJI WENTI  
[PROBLEMS OF AGRICULTURAL ECONOMY]  
in Chinese No 3, 23 Mar 89 pp 3-6

[Article by Cong Anni 0654 1344 1200 of the Scientific Research Department of the Ministry of Finance: "A Probe of Several Theoretical Issues of Agricultural Input"]

[Text] I. Which Should Be the Main Source of Input—the State or Peasants?

Under the condition that the prospect of China's agricultural development is grim and funds are in serious short supply, whether agricultural input should be provided mainly by the state or peasants is a debatable issue. Our view has always been that in agricultural fund raising, we should resolutely adhere to the principle of regarding state aid as a supplement and peasants' self accumulation as the main source. This is based on the following arguments:

A. International and historical experiences have both proved that peasants are the main source of agricultural input. International experience shows that the state input in agriculture is generally limited to protective and developmental projects and infrastructure construction such as investment in the agriculture-oriented industry, the construction of water conservation projects, the development of scientific and technological undertakings, and the improvement of the ecological environment. General production funds, the accumulation of rural fixed assets, and the improvement of production efficiency have to rely on the self input of peasant collectives. During China's construction and practice since its founding, agricultural fund raising has also relied mainly on the internal accumulation of rural areas. According to rough estimates, the original value of fixed assets in China's rural areas (not including water conservancy projects) adds up to 269.3 billion yuan, and over



80 percent of this has been accumulated by peasant households and rural collective economic organizations. Before 1979 when the income level was very low, Chinese peasants still shouldered the task of the main source of agricultural input.

B. The structural reform and the readjustment of distribution relations carried out after the 3d Plenary Session of the 11th CPC Central Committee have increased the internal accumulative ability of agriculture. Since 1979, the party and the government have readjusted the distribution layout of national income while reforming the relations of agricultural production. Comparing 1985 with 1978, the ratio of rural areas in the use of national income increased from 42.8 to 50.4 percent. In 1987, the total amount of savings deposits and cash holdings reached 140 billion yuan in China's rural areas. Currently, peasants are losing interest in input. This is not because their accumulative ability has declined but because economic policies are improper and the pricing mechanism has not been smoothed out. This has given rise to such problems as imbalance between consumption and accumulation and improper direction of use in the distribution of rural national income. Their main expressions are: 1) The ratio of rural national income used for accumulation is very low. It is estimated that during the Sixth 5-Year Plan period, accumulation funds accounted for only 16.8 percent of the use of national income, remaining basically at the annual accumulation level of 15.4 percent of the First 5-Year Plan period. 2) Of the already limited accumulation funds, the amount used for non-agricultural trades and housing construction in rural areas increased by 8-fold and 6-fold respectively while the accumulation of agricultural production increased only 20 percent. Among rural accumulations, the ratio of non-agricultural and housing accumulations to agricultural accumulation deteriorated from 24.5:13.8:61.7 in 1978 to 51.3:25.8:22.8 in 1985. It is thus clear that the current decline in agricultural input is not caused mainly by the internal fund shortage of agriculture but caused by the dissimulation of large amounts of agricultural funds.

C. China does not have the macroeconomic environment for industry to provide large-scale aid to agriculture. By citing the instances of developed countries supporting agriculture with industry in a big way, some comrades try to explain the necessity of the state providing the main part of agricultural input. In fact, this view is an abstract analysis divorced from the development level of industrialization. Existing research results show that when developed countries began to support agriculture with industry instead of supporting industry with agriculture, their industry had already laid a basic material foundation. For instance, the United States began to do so in the middle of the 20th century. At that time, the per-capita GNP of the United States was already over \$1,000, per-capita steel output reached 0.57 tons, crude oil output reached 1.3 tons, and both the rubber and chemical industries had a fairly solid foundation. Currently, China's per-capita GNP is only several hundred

U.S. dollars. Under this situation, if we take away the internal funds of industry and use it in agricultural accumulation, agricultural production may benefit for a little while. But judging from the point of view of development, it will cause industry to shrink, which will cause agriculture to lose the basis for long-term stable development. Therefore, as far as an economic development strategy is concerned, China's industrial development level has not reached the stage of providing large-scale agricultural support concerning the accumulation of funds, and it is also impractical to substantially raise the level of state agricultural input.

D. Change to a higher level of rural production structure has made "what comes from agriculture should be used in agriculture" an important way to support agricultural development. After the 3d Plenary Session of the 11th CPC Central Committee, fundamental changes took place in the layout of national income distribution between urban and rural areas and between workers and peasants. At present, the proportion of non-agricultural output value in the total output value of rural areas has increased from 31.5 percent in 1979 to 51.4 percent in 1987. Moreover, in non-agricultural distribution, the amount used to directly increase agricultural input has reached 6.5 percent. From now on, this ratio will continue to increase along with the increase of net output value.

The above analysis shows that the external macroeconomic environment facing agricultural input is not necessarily favorable. We can only try to increase agricultural input and develop agricultural production within the specific macroeconomic environment. However, there is a great potential within agriculture to increase the input. The fundamental solution to the problem of agricultural input still lies mainly in the internal accumulative ability of agriculture. "Regarding state aid as a supplement and internal self accumulation of agriculture as the main source" will still be the basic thought and principle of agricultural input and accumulation strategy in the future.

## II. A Probe of the Limit of Newly Increased National Income To Be Transferred to Agricultural Investment

Using all usable funds to maximize the increase of agricultural input is an objective demand of national economic development as well as our guiding thought in the study of the agricultural input issue. Some comrades think that the more funds the state invests in agriculture the better. In fact, there is a quantitative limit on the amount of annual increase of national income that can be transferred to agricultural investment. This is because the input of agricultural funds is the monetary expression of materials used in agriculture. Restricted by the ability to supply materials for agricultural use, only a part of the annual increase of national income can be transferred to agricultural investment. We have made a general analysis of the quantitative limit of newly



increased national income that can be transferred to agricultural investment under the given national economic and industrial structure.

The total amount of newly increased agricultural investment used on agricultural capital goods is controlled by the scale of industrial growth. During the 1978-87 period, the total sales volume of agricultural capital goods was 488 billion yuan (this generally indicates the total amount of effective supply of agricultural capital goods), and the total value of accumulative industrial output was 8,108.9 billion yuan. The former amounted to 6 percent of the latter. In other words, during this period if the total amount of money used to purchase agricultural capital goods surpassed the 6 percent ratio of total industrial output value, there would have been a shortage of corresponding material supply.

In short, the limit on the increase of monetary input is determined by the limit on the increase of material objects. Surpassing this limit under a definite production structure would make it impossible to increase the amount of material objects and cause the problem of excessive distribution of agricultural input in the form of value. This would not only take national economic investment away from other industries but also cause agricultural input to increase only through the illusion of price readjustment. Obviously, we must respect the law of limit. This is the precise expression of the "four major balances" principle on the issue of agricultural input.

### III. The Strategic Choice of the Methods of State Agricultural Input

We believe that in light of China's actual conditions, agricultural input should be made through three main channels of prices, taxes, and direct investment. It cannot achieve best economic returns unless various economic means are used in an interchangeable and coordinated manner.

A. The direct agricultural expenditure of the state finance should increase gradually along with the increase of state financial power, and the ratio of revenue used for agricultural infrastructure should be raised in a planned manner. This is because the monetary input of state finance, which is the primary link in the distribution of national income, can change the distribution quota of national income between urban and rural areas and between workers and peasants. More importantly, the direction of its monetary input has a guiding function and represents the direction of state agricultural input. In view of the current situation in which agricultural input is declining, agricultural development lacks staying power, and agriculture is a major weak link of the national economy, the formulation of financial policies must focus on the readjustment of national economic structure and facilitate the rational distribution of national income between urban and rural areas and between workers and peasants during the new period. To do so, we should first resolutely readjust the slanted

investment structure formed in the past that stresses industry and ignores agriculture. All financial departments from the central to local levels should increase investment in agricultural capital construction, especially capital construction for grain production. We should suggest that the state gradually change the investment ratio from 6.3 percent of the Sixth 5-Year Plan period to 11.5 percent or the level of the Fifth 5-Year Plan period. Second, we should be determined to increase the ratio of agricultural aid in the total expenditures of financial budget. We suggest that from now on this ratio be increased at the same rate as the increase of total financial expenditures. We should also stipulate that a definite percentage of local reserve funds should be used to improve production conditions. Under general conditions, provincial finance should allocate no less than 15 percent, county finance no less than 20 percent, and township finance no less than 30 percent. All this should be legalized. We should use the form of legislation to guarantee their enforcement and thereby achieve the goal of agricultural input.

B. The prices of major farm products should implement the "dual-track system" and the prices of contracted procurement should be steadily increased along with the growth of labor productivity. Raising the procurement price of farm products is an important channel of state agricultural input. Some people do not recognize price increase as state agricultural input. As a matter of fact, not only the change of farm product price policy changes the distribution layout of national income in the course of initial distribution but the large amounts of subsidies issued to stabilize workers' living standards and guarantee peasants' actual benefits also further readjusts the distribution of interest in the course of redistribution. In 1979, the state increased the procurement prices of farm and sideline products by 22 percent, and over 17 billion yuan of huge deficits immediately appeared, proving that price input is an important link in agricultural input.

Some people think that the key to the solution of the problem of agricultural input lies in another substantial increase in the procurement prices of farm products. They think that this is the only way to arouse peasants' enthusiasm for investment and increase the self-development ability within agriculture. But we believe that currently China does not have the basic conditions to substantially raise again the procurement prices of farm products. The main reasons are: 1) At the present stage, China does not have the economic prerequisite to eliminate the price disparity between industrial and agricultural products. Between 1979 and 1987, the procurement prices of Chinese farm and sideline products increased 98.8 percent, which doubled in 9 years, averaging 20 percent a year. This far exceeded the average annual growth rate of agricultural labor productivity during the same period. At present, a certain degree of price disparity still exists between industrial and agricultural products, but this is basically because agriculture still lags considerably behind industry in regard to the

comparison of industrial and agricultural labor productivity. Because of this, increasing agricultural labor productivity to get close to the level of industrial labor productivity is the basic prerequisite for substantially raising the prices of farm and sideline products and eliminating the price disparity between industrial and agricultural products. China does not have such an economic prerequisite for now or for sometime to come.

2) Currently China does not have the ability of material supply for substantial price increases. Price increase should be linked to the ability of material supply. China's agricultural capital goods market is very tight now, and incidents of plundering chemical fertilizer and pesticide have occurred constantly. Under this condition, if we raise the procurement prices by 30 percent, peasants will have 70 billion yuan more income a year, calculated based on the total amount of social farm products procured in 1987. If half of this increased income is put into production, the state will have to come up with 35 billion yuan worth of agricultural capital goods. Obviously, the state cannot increase production capacity by this much in a short period of time. Price increases should be considered together with the state supply of materials for agricultural use. Otherwise, the increase of cash holdings in the hands of peasants will become useless without the guarantee of corresponding supply. It will put great pressure on the market of materials for agricultural use, cause the prices of such materials to rise, and give peasants erroneous feedback, which makes peasants think that agricultural cost is rising while the actual prices of farm products are declining, thus drastically dampening their enthusiasm for agricultural input. This is an issue we must carefully consider when formulating the price policy of farm products. 3) The state does not have the financial ability to substantially raise the procurement prices of farm products. A substantial rise in the procurement prices of farm products is impossible without the guarantee of corresponding financial power of the state. We have calculated that if prices increase 30 percent from the current basis, the state finance must come up with 30 billion yuan a year. Facing a huge demand for funds and with state finance in "tight operation," it is obvious that the state does not have such a financial capacity in the course of reform. Excessive price increases beyond the possibility of state financial power can worsen the imbalance between financial income and expenditure and have an extremely harmful effect on the economy. In short, judging from the agricultural labor productivity at the current stage and considering both the financial and material resources of the state, it is not a good idea to substantially increase the procurement prices of farm and sideline products. Furthermore, the current problem of low relative profits of farm products is not caused by the fact that price increases are too slow but caused by the fact that the price control is chaotic and new pricing mechanism has not taken shape. This has in turn created price spirals and restored previous price relations. Because of this, the key to the problem of low relative profits is not to substantially raise prices but to prevent old price relations from coming back.

Therefore, we suggest that the prices of major farm products should still adhere to the principle of the "dual-track" system. The "dual-track" system is a proper interim measure that organically combines unified procurement and market procurement under the actual condition of China's productive forces. Through the contracted procurement task, the state can control basic farm products needed in the national economy and the people's livelihood. And at the same time the state can stabilize the price bases of basic farm products through the prices of contracted procurement. Peasants can increase income according to their harvests through the regulation of market prices. We suggest that under the prerequisite that the basic trend of increase in industrial and agricultural labor productivity remains unchanged, the contracted procurement prices of major farm products be increased in accordance with the agricultural labor productivity, the ability to supply materials for agricultural use, and the state's financial capacity. The appropriate annual increase should be around 3 percent, which is to prevent enlarging the price disparity between industrial and agricultural products.

C. We should implement the principle that "what is taken from agriculture should be used in agriculture" when designing an overall rural tax system. Tax is a main source of financial accumulation. Tax policy is also a main channel of agricultural input. Along with the changes of rural production structure, rural areas have formed a multi-level and multi-link tax system. Under current conditions, the formulation of the rural tax policy should be considered along with the deepening of the tax reform so as to give full play to their overall effect. Agricultural tax should continue to implement the principle of "stabilizing burdens by not increasing taxes for increased output" in order to lighten the economic burdens on farmers, especially grain farmers. However as rural industrial structure changes, rural industrial and commercial tax system urgently needs to be improved. We should intensify rural industrial and commercial taxes and exercise the function of tax lever in readjusting production structure to gradually rationalize the internal industrial structure of agriculture. Moreover, in order to rationally restrict consumption and guide the direction of fund utilization of rural households, we should levy farmland use tax and housing construction tax on farm property and houses. According to a rough estimate, over 20 billion yuan is collected every year from rural areas in the past few years, and by the year of 2000, the figure may reach 70 billion yuan. Returning most of it to rural areas to help develop the rural economy will be an exact expression of the state's important support to the weak link of the national economy.

In short, for now and for some time to come, the state's strategy for choosing the method of agricultural input should be to comprehensively use economic levers, develop strong points, avoid weaknesses, and give full play to overall effect. We should adopt the slant strategy of increasing direct investment to readjust the proportional relations of the national economy; adopt the price

policy of slightly increasing while stabilizing the prices of farm products to solve the problem of relative profits caused by the restoration of price relations; and follow the tax system designing ideas of stabilizing agricultural tax burden, intensifying the industrial and commercial tax system, and "using in agriculture what is taken from agriculture" to open up a new road of internal circulation of agricultural capital. This is our basic trend of thought in formulating investment, price, and tax policies. It is also our principle and basis for the overall distribution of state agricultural input.

#### **IV. Developing the Function of Credit Lever in Accelerating Agricultural Development**

Along with the development of the commodity economy in rural areas, the pillar role of credit fund in the agricultural fund system will increase as each day goes by. The business scope of credit funds will extend from the previous field of simple reproduction to the expansion of reproduction. Judged from the situations of some developed capitalist countries, credit funds account for a large part of total funds needed in agricultural production and management activities. For instance, this ratio is 40 percent in the United States and about the same in the Federal Republic of Germany. Due to such factors as underdeveloped agriculture and a low commodity rate, we cannot make simple comparisons between China and these countries, but our current credit funds accounting for only 10 percent of total agricultural operation funds is really too low. And there are also problems in the rural credit structure. In the past few years, the tendency of using agricultural credit funds for non-agricultural use has become very serious. According to an investigation conducted by Hubei Province, loans issued by Hubei's agricultural banks in 1986 showed an increase of 102 percent over those in 1984, the ratio of agricultural loans declined from 30 percent to 20.3 percent, and loans for grain production accounted for only 10.2 percent in 1986. The excessively high ratio of industrial and commercial loans has reversed the flow of agricultural funds,

indicating that the current direction of the use of agricultural credit funds is incorrect.

Judging from the future trend of development, bank credit will play an increasingly greater role in regulating the surplus and deficiency of funds. According to the estimates of agricultural banks, by the year 2000, peasants' savings deposits in rural areas and temporary funds available during the operations of township enterprises may reach 600 to 700 billion yuan, which will become the main source of funds for agricultural banks and credit cooperatives. This shows that we do have reliable sources of funds to increase the ratio of credit funds in agricultural production and management and expand the business scope of agricultural banks and credit cooperatives. If we can readjust the credit structure, find a good solution to the problem of dissimilation of agricultural funds, and correct the use direction of credit funds, we would be able to substantially increase agricultural input and genuinely exercise the function of credit lever in accelerating the development of the rural economy.

In short, if we can correctly understand several important principles and limits of distribution policies concerning China's agricultural input, we would be able to effectively improve the quality and quantity of agricultural investment, thereby easing the sharp contradiction of permanent shortage of agricultural funds and realize the rational distribution of natural resources. This is of great strategic significance to improving the longstanding agricultural problems in China and promoting a benign circle for the national economy.

#### **Hebei's Cotton Planting Situation Updated** *SK2005121189 Shijiazhuang Hebei Provincial Service* *in Mandarin 2200 GMT 5 May 89*

[Summary] As of 2 May, the province planted more than 10 million mu of cotton, accounting for 82 percent of the cotton growing plan and showing an increase of 2.6 million mu over the same period last year. It is estimated that the province shall sow 11.8 million mu of cotton by 10 May.

**Symposium on Legal Rights and Obligations**  
40050385 Shanghai ZHENGZHI YU FALU  
[POLITICS AND LAW] in Chinese  
No 1, 5 Feb 89 pp 10-12

[Article by Zheng Chengliang 6774 2052 5328: "Development of the Commodity Economy and Democratic Politics, Reconstruction of the Science of Law; A Summary of the Symposium on Basic Legal Categories"]

[Text] Four units, including the law department of Jilin University, met in June 1988 in Changchun for a first time symposium on basic legal categories. Rights and obligations were the main subject of discussion and the views presented will be summarized below.

**I. Reconstruct the System of Legal Theory Using Rights and Obligations as the Basic Categories**

It was pointed out at the symposium that a scientific system of categorization is one of the signs of a mature legal system. In this regard, the Chinese legal system, particularly the area of jurisprudence, urgently needs work in this direction. In the past, China's system of jurisprudence was centered around will in the beginning (control of class will) and regulations in the end (legal standards that restricted and punished human actions). This was more than enough to serve the ends of forceful, suppressive political movements but it didn't provide much for constructing a legal system that protected basic human rights. It was able to provide neither theoretical guidance for a scientific and effective study of branches of law, nor could it meet the requirements of the times for developing the socialist commodity economy and democratic politics. Under these circumstances, it is absolutely vital that serious theoretical investigations be conducted on the issue of basic legal categories.

In recent years, some Chinese scholars have proposed that the system of legal theory be built around the basic categories of rights and obligations. This met with widespread interest and assent from legal workers at the symposium. They felt that scientific study depends on revealing and studying the characteristic contradictions of the object of study itself. Thus, those core concepts that are used as basic legal categories must be able to provide clues in bringing to light and explicating the inherent contradictions in the whole legal phenomenon. Control over class will and rules of behavior are not unique to legal phenomena. Control over class will is embodied in all of the goal-oriented activities of such things as politics, the military, economics and culture. Religious standards, moral standards and customs also go to make up systems of rules for adjusting human behavior. In contrast, the categories of rights and obligations embody all of the characteristics of social contradictions contained in and touched upon by law including such legal phenomena as legal regulations, legal behavior, legal relations, legal duties, legal restrictions, legal systems, branches of law, legal requirements, functions of law and historical types of law. All of these

things can be concretely explained through the use of rights and obligations. It was pointed out that rights and obligations permeate all aspects of law and are found in every stage of the legal process. All legal questions revolve and assemble around rights and duties and their boundary lines. One of the missions of Marxist law is to make a theoretical explanation of this issue, advance social progress and provide an optimum plan for legal rights and duties and their lines of demarcation throughout each stage of history, particularly during periods of reform.

Everyone agreed, clearly pointed out and stressed that putting rights and obligations at the main line or center of legal research signifies development and depth in legal theories of knowledge and this is of developmental significance. Some comrades pointed out that by proceeding with in-depth research using rights and obligations as a core legal category, independent legal systems and schools of thought can take shape and this will inevitably inspire ground-breaking new work in legal theory.

**II. The Science of Law Should Be Concerned With the Study of Rights**

In the course of the free discussion among equals some comrades pointed out that, under the new historical conditions of commodity economy development and construction of democratic politics, the science of law in China has lagged remarkably behind relative to other social sciences and jurisprudence in particular has gotten "bogged down." The reason for this is that since the beginning of the creation of the nation when Soviet legal theory was passed along to China, there have been two major flaws in Chinese jurisprudence: first, the theory of class struggle, with class theory as its key link, has been implemented in extremely inappropriate ways in all areas and stages of the law; second, we have used regulations as the key category and have tried to sum up complex, living social phenomena by using lifeless regulations. These comrades said that a one-sided class theory cannot make distinctions between law and other social phenomena, it distorts the role of law and it provides certain power-grabbers with a pretext for destroying the legal system. A one-sided theory of regulations often leads to recognition of things at the expense of people and it wipes out the primary position of man. The most effective way to overcome these two major flaws is to adopt a theory of rights. A modern science of law that is suitable to a commodity economy and democratic politics should be one that is a study of rights.

There was widespread feeling by the comrades at the symposium that an awareness of rights is a concrete reflection of the awareness of the subject in legal theory and legal concepts. This is both a product of a commodity economy, democratic politics and implementation of a legal system and a force for spurring on a commodity economy, democratic politics and implementation of the legal system. The establishment of the new commodity

economy order, the development of democratic politics and the perfection of the legal system all require that the whole people gain a strong awareness of their rights and that government and its workers earnestly respect the rights of citizens. Only a government that fully respects the rights of its citizens can arouse trust, dependence and love for the law in the people. Only a science of law that is based upon rights can provide effective assistance in resolving such negative phenomena as power substituting for law, humans substituting for law, and lack of interest in law on the part of the masses.

Some comrades emphasized that the primary characteristic of a commodity economy and democratic politics is diversification of subjects. Legal rights are precisely the ultimate confirmation of this subject diversification required by law. They reflect the inherent attributes and laws in both a commodity economy and democratic politics. Thus, a modern science of law should be a study in rights that takes a commodity economy as its base, that is mainly programmed toward democratic politics, that uses rights as its analytical unit and that adopts multi-dimensional fields of vision as its method. It is not equivalent to the science of law that uses regulations as its analytical unit and it can never become a study of class struggle. If we don't emblazon the word "rights" onto the banner of law, if we don't come to rely on obligations or if we pass off obligations as rights, these will be major reasons why the people don't come to feel intimate with the law.

### III. Legal Reconstruction Hinges on a Modified View of Rights

Participants at the symposium felt that rights and obligations should be the key categories of a science of law and this would provide a firm theoretical base and analytical framework to enable China to meet the needs of the times and reconstruct its legal theories. Having done this, the critical issue for legal reconstruction will be to make basic modifications in the traditional views of rights.

Participants at the symposium carried out a broad and penetrating inquiry into the various definitions of "rights." Some comrades emphasized that different men could arrive at different definitions of "rights" depending on the angle from which they approached the issue. However, a basic issue to bear in mind is that our reform mission demands that legal workers come to a substantive understanding and grasp of what 'rights' mean from the standpoint of promoting the development of the commodity economy and democratic politics. The commodity economy and democratic politics acknowledge the position of the individual subject, and have as their basic structural elements the economic and political behavior of the individual. In the traditional Chinese economic and political systems, the individual has been tightly bound to the relations of the patriarchal clan system and the local relationships founded on control

and submission. As reforms work their course, the individual, with independent economic interests and political demands, is continually divorcing himself from the product economy and the power-concentrated political community. Thus, reestablishing and acknowledging individual rights in the law has become an inevitable choice made by society. These participants felt that, under conditions of mutual independence of individual elements, the social origins of legal rights rest on the one hand in the demand made by each element to maximize itself, and on the other hand in the realization that the process by which this value is achieved cannot work to negate the public order. Widespread striving by individual elements to maximize their values leads to contradictions and clashes between subjects with different interests and the requirement that these contradictions and clashes be worked out. Legal rights acknowledge and safeguard the activities and territories of the different subjects' interests and, in order to protect these rights, legal obligations also arise. If we say that a socialist commodity economy and democratic politics are actual foundations produced by individual rights then the acknowledgement of individual rights is a prerequisite to the normal development of a commodity economy and democratic politics.

A few participants at the symposium pointed out that the view of rights that has long occupied a mainstream position in China's science of law is a combined product of Soviet law and traditional Chinese legal culture. Although it does contain certain scientific and rational elements, as a whole it is no longer suitable to the changing society. First of all, the traditional view of rights is exceedingly tied to social standards. It starts out with an ideal model that has no connection to reality, it overextends the similarity between individual and social interests, it ignores the disparities and conflicts of interests in socialist society and it has as its standard for value judgment the degree to which individual interests subordinate themselves to the collective interest. In this way, the interest relationships between the individual and the collective are no longer ones of mutual cooperation based on a standard of social justice but are relationships where one side overwhelms and engulfs the other. However, a commodity economy and democratic politics require full respect for the just interests of the individual as a prerequisite. Actually, the production of rights arise when there is a widespread background of disparities and clashes among interests and only when widespread egoistic behavior gives rise to clashes among interests and thus social selective mechanisms are required to provide such safeguards as harmonization, and equality of the various just interests and individual rights become truly necessary and possible. On the contrary, in an idealistic society or autocracy where all various interests are merged, no demand for rights will arise. Secondly, the traditional view of rights places far too much emphasis on the rights of the State. It stresses the absolute supremacy of the control over class will and the rights of the State over the individual. It ignores or denies that the individual has a definite position from

which to exercise self-initiative and that he has fundamental inalienable rights in opposition to the State. This has provided a theoretical basis from which certain privileged persons have enlisted class control or the name of the State to enable them to clamp down on and control individual activities and wantonly violates the citizens rights of property and freedom. But, the establishment of the new commodity economy order and subjection of democratic politics to the legal system requires that the government abide by fixed and enumerated limitations on its power and no individual's legal rights can be taken away or limited unless the proper legal procedures are followed and proper reasons are given. Furthermore, the traditional view of rights has placed too much emphasis on obligations. It has overdrawn the similarity between moral evaluation and legal evaluation. Thus, there has been a tendency to restrict individual economic and political behavior by using stringent moral obligations and qualitative judgments about the value of life, to see self-interest its pursuit as wrong, and to severely restrict and punish it. However, the bifurcation of social standards for evaluation is a cultural prerequisite that must be developed in order to have a commodity economy and democratic politics. Thus, despite the fact that an altruistic moral view sees the pursuit of individual self-interest as bad, from the legal standpoint the pursuit of individual self-interest should be viewed as proper behavior and should be protected. If we make it a legal obligation for the people to become saints, then we can have neither a commodity economy nor democratic politics.

#### IV. "Due" Rights Must Be Studied Closely To Achieve a Modified Concept of Rights

The historical mission of legal scholars in any age is provide the optimum plan or criterion for allocating rights and duties so as to achieve social stability and development. Thus, the study of law cannot be restricted to the analysis of "actual" rights as they are provided by existing legal standards but must go further and study "due" rights. This is particularly true during periods of reform when rights and obligations are being reallocated or restructured. With this in mind the participants at the symposium pointed out that the study of "due" rights and their relationship to legal rights will become an area of intense interest and development in Chinese legal philosophy. A general theory of rights should include a systemic elaboration on the actual rights and "due" rights of citizens, the former belonging to the category of legal rights and the latter comprising all the rights citizens should enjoy as equal subjects in a political society. Legal rights are the embodiment and confirmation of due rights and due rights are the premise and foundation for legal rights.

Some comrades pointed out that China's traditional legal culture was centered around the legal concepts of obligations and the State as being primary. Since the establishment of New China, these legal concepts have been merged with the theory of the class struggle tool and

have been further strengthened. This has led to neglect of the individual interest and has conferred rights upon the State. By attaching importance to rights, and in particular the study of due rights, we can overcome these traditional legal concepts. Thus, while we reconstruct our legal philosophy with rights as the analytical unit, we must clearly emphasize the primary position of the citizen and the fact that the State is only a public servant through which due rights become legal rights. Legal philosophy should reinvestigate due rights and should not merely view them as legal rights. If we limit our view to legal rights only, then we will never be able to shake ourselves free from the trap of interpreting the science of law.

Participants at the symposium felt that developing the study of due rights is not only a matter of reconciling the will and compulsion of law and the State but also requires reconciliation of such legal values as justice and fairness. The rights inquired by a commodity economy and democratic politics are equal rights and this inevitably touches on the issue of justice. A modern system of law must equitably allocate and safeguard the rights of all society's members, it must be designed to avoid fierce conflicts and opposition among the members, it must mobilize the enthusiasm of all people and the various interest groups, all for the purpose of seeking a unity of justice and efficiency. Only laws that substantially confirm and safeguard the due rights of the people are able to deal with the interest demands of every person on an equal basis and rationally work out conflicts, thus arriving at social progress and stability.

#### V. The Social Value of Rights and Obligations

There was widespread feeling among the participants that confirmation of rights and obligations as core categories in the science of law provides a basic clue for demonstrating and explaining the inherent contradictions in legal phenomena. Thus, it is of immense jurisprudential value. Some comrades pointed out that the social value of rights and obligations can be revealed in four areas.

A. They ensure stable development of socialized production. There are two basic elements of the productive force: laborers and the means of production. Only when these two elements are safeguarded and can be freely combined can great socialized production develop in a stable way. In capitalist nations there are "human rights" and "property rights." Although in a capitalist society these two rights are separate, human rights guarantee a free flowing source of labor, and property rights ensure the free multiplication of capital, thus allowing for great development of the productive forces. A socialist nation that is starting to move from mutual division of "human rights" and "property rights" toward directly combining them should give full play to the spirit of self-initiative by safeguarding the right of the workers to be the masters of their own affairs and should raise the working enthusiasm and creativity of producers. Also, the common

wealth of the workers should [be] enhanced by safeguarding their collectively- and privately-owned property and increasing social wealth. The only way to rapidly increase the developmental speed of great socialized production is to safeguard the personal and property rights of the workers.

B. Rights and obligations are the outer shell of a commodity economy. The theme of economic system reform is development of the commodity economy. Market realization of commodity value and use value requires us to move to participatory exchanges between parties with equal rights and obligations. Otherwise, exchange cannot occur and market order cannot be established. Although there are essential differences between capitalist and socialist commodity economies, there are no exceptions to the rule that things must be done according to the law of value. Everything must be achieved and protected by the market relationships of rights and obligations.

C. A system of democracy connotes rights and obligations. Democracy is realized and protected by the legal system. In reality, the fundamental collectivization in democracy is that whereby the will of the people is collected through the democratic system, elevated to legal status and later followed by society as a whole. This is the way in which sovereignty of the people is realized.

Once rule by man under the sovereign autocrat is abolished, the organization and activities of the State and all actions of State employees are subject to the legal system. In this way we will overcome the longstanding ideas formed from the feudal system that the State, officials, and obligations are primary and we will make the people primary. Without rule by law, democracy cannot be realized nor protected. Democracy is realized in conjunction with and in the same process as rule by law, and rule by law is established on a foundation of democracy. Neither can be without the other. Enjoyment of rights and performance of obligations on the part of the people is the expression of this union of democracy and rule by law.

D. Rights and obligations are the basic make-up of rule by law. Rights and obligations are the basic contents of legal standards and are the basic elements of the legal relations that are formed by the implementation of the legal standards. A group of rights and obligations that are characterized by their similarity make up a branch of law. Thus, the core of modern legal concepts is the concept of rights and obligations. When all members of society enjoy legal rights and perform legal obligations, the legal order of the society is formed and rule by law is perfected. By understanding this one can update one's concepts about rule by law and modify one's old concepts that have been formed through a thousand years of rule by man.



## EAST REGION

**Interview With New Anhui Governor Fu Xishou**  
*OW1005181489 Beijing Domestic Service in Mandarin*  
2130 GMT 27 Apr 89

[From the "News and Press Review"]

[Text] According to XINHUA reporter Wang Zhengzhong, the newly elected Anhui Governor Fu Xishou said in an interview with the reporter that honesty, hardworking, and democracy should be the focal points for improving and strengthening the work of the government.

The new governor said: "Honesty in performing official duties and vigilance against corruption should be the top priority of the government work. Principal leaders of the Provincial Government and all its subordinate departments should not only exemplify themselves in executing duties honestly but also ensure the honesty of the office they are in charge of, thereby setting a good example in fostering a sound atmosphere throughout the province."

After criticizing the previous malpractices, the new governor disclosed that the Provincial Government will seriously discuss the deputies' suggestions and examine the government's work in line with the call for mental preparedness for a few years of austerity. It will add and revise the regulations for ensuring clean government.

Fu Xishou said: "While advocating clean government, it is necessary to emphasize hardworking spirit. As far as this is concerned, the Provincial Government will adopt a realistic approach in solving practical problems, stressing efficiency, and ensuring the implementation of policy."

He said: "In improving and strengthening the government work, it is also necessary to promote democracy. Hence, this year the government departments will concentrate efforts on improving the legal system, enhancing democracy, doing things in a more scientific and systematic manner, and raising work efficiency. At the same time, it will hold regular dialogue with the ordinary people and grassroots cadres so as to understand their opinions and demands in good time, report to them the real situation, and promote two way communication between higher and lower levels, thereby increasing openness of the government work and avoiding blunders in major policy decisions."

**Anhui Public Security Chief on Fighting Crime**  
*OW1005015489 Hefei Anhui Provincial Service in Mandarin 1100 GMT 25 Apr 89*

[From "Provincial Hookup" program]

[Text] This year, to deter crime and protect the people, Anhui will launch collective, large-scale strikes at criminal elements and carry out regional strikes in districts and areas where public order is poor.

This was disclosed by Wang Shengjun, member of the Anhui provincial party committee Standing Committee, secretary of its political and legal affairs committee, and director of the Anhui Public Security Bureau, when commenting on public order at a press conference sponsored this morning by the Publicity Group of the 2d Session of the Seventh Anhui Provincial People's Congress.

Present at the press conference were Wang Chengle, president of the Anhui Higher People's Court; Feng Jianhua, chief procurator of the Anhui Provincial People's Procuratorate; Chen Ruilin, president of the Anhui Judicial Department, and other leading members of relevant law-enforcement departments.

Briefing reporters on Anhui's public order, Comrade Wang Shengjun said: "The current situation in Anhui's public order is grim. The most conspicuous problems are increasing criminal and economic crimes and evildoings, and factors contributing to social instability."

He continued: "The Anhui provincial party committee and the provincial government are fully confident about improving public order. As long as party committees and governments at all levels attach genuine importance to improving public order, they can do so."

Answering our station reporter's question on how to improve law-enforcement personnel's proficiency, Wang Shengjun said: "The more severe the public order situation has become, the greater attention we should pay to the training of law-enforcement personnel. To improve the personnel's proficiency, three things are most essential. First, stricter control must be imposed on the police forces; second, the police forces must be given political and professional training; and third, law enforcement must be more visible and the results of handling criminal cases should be open to the masses' supervision."

A reporter of the FAZHI DAOKAN [LEGAL SYSTEM HERALD] asked: "It was stated in the government work report that problems of public order will be dealt with in a comprehensive manner, and that whichever department is in charge will also be responsible for the work under it. What sort of responsibilities will the public security departments hold?"

Wang Shengjun answered: "The concept—namely whichever department in charge will also be responsible for the work under it—is different from public security departments' responsibilities in maintaining public order. A crime is committed because of political, ideological, cultural, moral, or other reasons. That is why crimes must be dealt with in a comprehensive manner. Public security departments must, first of all, be responsible for the maintenance of public order as a whole. Secondly, all competent authorities must organize, inspect, and promote the work of the units under their jurisdiction."



Leaders of other law-enforcement departments also answered reporters' questions concerning how to promote Anqing City's experiences in mobilizing people of all social sectors to make concerted efforts to improve public order.

Over 40 reporters of central news agencies in Anhui and news agencies in Anhui and Hefei were present at the press conference.

## SOUTHWEST REGION

**Sichuan Confronts Rice, Salt, Coal Shortages**  
40050347 Hong Kong PAI HSING [THE PEOPLE]  
in Chinese No 186, 16 Feb 89 pp 40-43

[Article by Pa Shan 1572 1472: "How Did the Land of Plenty Ever Sink Into Crisis? A Special Report on Sichuan: There Is No Rice; Table Salt Is in a State of Emergency; And Coal Supply Is Often Disrupted"]

### [Text] It Is Very Strange: No Rice in Rice Shops

Ever since early and mid-January 1988, long, serpentine lines have appeared before grain shops in Sichuan, customarily known as a "rice basket" and "land of plenty," of all places. And around 10 November, many shops in Chengdu were displaying signs reading "No Fighting (Standing)" and "Out of Rice; Please Do Not Line Up." Thus, any shop that obtains rice is quickly confronted with a long line of customers bearing bags and sacks. This is also the case even for wheat flour and vermicelli, staples of local residents. This state of affairs has emptied the rice jars of employees and residents, who stamp their feet, grouse at their old ladies, and are full of alarm.

A middle-aged worker standing before a riceless shop complained: "I took a half a day off work to come out and buy grain. Who would have thought that none of the seven or eight shops I went to would have any rice. Is my family going to have to brace our mouths and eat instant noodles every meal?" A worried looking young woman standing in a long line to buy grain said: "I've been out 5 days in a row to buy rice and still haven't landed any. I had to borrow last night's rice from a neighbor, but it looks like today there might be some hope." This writer saw one line for grain, noodles, and oil that had 118 people, including employees, cadres, young people, and old folks, stretching from the counter to its end—and this number includes only people who were properly lined up, not those crowded off to one side or cuts takers. And if you take into account the fact that each person in line was holding several grain purchase books, that is to say, each was buying for several families, then the number lined up was at least 300-plus. Thus some of the linestanders said: "I've been here for more than a half an hour and moved up only a little more than a meter. Who knows when you'll have the time to stand in line."

This state of affairs has reportedly occurred in other parts of Sichuan, as well.

### How Strange that the Salt Capital Is Short of Salt

Zigong, known as the "salt capital," has long been renown for its brine-pit production. Recently, however, this town, where even the air is full of a briny smell, has faced extremely tight supply of table salt, which development has led to runs on salt; even common seasonings such as soy sauce and fermented beans recently have become "targets"; and residents put it [vague pronoun; as published] in bottles and jars to take home, causing it to rise in price several fold.

If that is the situation even in the salt capital, you can imagine how dear salt is in other regions. In localities like Chengdu, table salt has been "off the shelf" for many days. And "great-grannies," hobble on bound feet from one nonstaple food shop to another, coming up empty each time and finally returning home in disappointment. But once the cry "salt!" is heard on the streets and alleyways, residents race about exchanging the "wonderful news" and urging one another to get hopping so as to avoid missing this "great opportunity." And since the "opportunity is rare," if you're going to go and buy salt you might as well buy a bunch, so the salt shoppers sally forth with sacks of all sizes, sling it over their shoulders or carry it by conveyance (bicycle). Just as when they buy rice, residents seem to want to buy enough salt for 8-10 years, for their children and their grandchildren. But this practice also clearly exacerbates market shortages of table salt and makes the contradiction between supply and demand even more serious.

### What Are the Grain and Salt Wars All About?

About Sichuan, it has long been said that "the earth yields the five grains, rich expanses spread for thousands of li, no drought or flooding ever occurs, and output is abundant," and thus the province is called "the Heavenly abode." Sichuan leads the nation in grain, hog, silkworm, rapeseed, and other products, and has consistently been an important base for production of nonstaple agricultural goods. It was for his outstanding performance as the Sichuan CCP party secretary that Zhao Ziyang was promoted to the bejeweled throne of premier of the State Council, and one can still hear the praise "if you need grain, look to Ziyang." And salt is a major product of the province—which has long been famous for its salt output, ever since Li Bing served as governor of Shu—and is produced in many areas of the province: In addition to the famous salt capital, Zigong, Leshan, Wan, Nanchong, Mianyang, Dianjiang, Liangshan, and other localities also produce much raw salt. And Sichuan is a major producer of brine-pit salt and an important salt producing base in the country. In 1988, Sichuan completed its state plan of 1.7 million tons of salt output for the year 53 days ahead of schedule and is estimated to have produced more than 2 million tons during the year. At a per capita annual rate of salt consumption of

8 shijin, the entire province, which has a population of more than 100 million, needs at most only 900,000 tons of table salt to meet all local demand. And since output greatly exceeds this amount, there should never have been any shortage of table salt. But now, even things that are "no problem" have suddenly become a problem, causing major "grain and salt wars." What is going on? [as published]

### The Real Cause Is Irrational Price Ratios

In a phrase, it is precisely the great irrationality of price ratios that has led to the severe problem of no rice in grain shops. Relevant surveys show that since last year across-the-board and large increases in the prices of seeds, chemical fertilizers, pesticides, plastic film, and other agricultural means of production have increased the costs of the grain and rice peasants labor so hard to produce to about 55 fen a jin, whereas the agricultural taxes and the parity and negotiated prices for all grain procured by the state are all averaging at only 44 fen a jin. This means that peasants not only do not make any money on the grain they sell, they even suffer an 11-fen loss on each jin sold. The more one sells and grows, the more money one loses. Who would be willing to undertake a clear money-loser operation like this?

And not only that, "official involvement in commerce" and "official profiteering" stalk the land, and officials have been diverting funds for grain procurement to other purposes, so that even if peasants, reluctantly or willingly, sell grain to the state, what they get is not the cash they so desperately need but worthless IOUs, for which nobody knows when they will be paid. Even if the IOUs are paid at some later date, putting aside the problems of losses caused by inflation, bank interest rates, and other factors, how will peasants obtain the funds they so desperately need to buy the means of production for the early spring work and necessary articles of daily consumption? That's because agricultural investment companies, supply and marketing departments, rural shops and the like do not honor the IOUs. This has greatly dampened peasant enthusiasm for selling grain and caused peasants repeatedly to be reluctant to sell, to undersell, or to refuse to sell. If granaries do not take in any grain, how can they distribute it to rice shops? But most serious and noteworthy is the fact that these problems—low prices that harm peasants, procuring rice with worthless IOUs, and peasants being unwilling to grow and sell grain—are not limited to Sichuan alone but occasionally occur in many other areas throughout the country and are not unusual.

### Salt Plants Favor Industrial Use

That brings us back to table salt, of which the price ratio is really far too low. At the current state list price, a jin of table salt retails on the market for only 18 fen, which is less than an ice cream bar, half the price of a bottle of ordinary pop, and cannot compare to the spiraling prices for agricultural and sideline produce on agricultural

trade markets. Let us take the Zigong Salt Industry Group, for example. Since the beginning of this year, raw salt has been in great demand, but many problems plague production. Due to the rise in energy and raw materials prices, salt production costs have risen by 11 percent over last year's, but the sales price has to be maintained as is. Since salt prices have long deviated from value, salt plants and pits lack sufficient reserve strength, results are puny, there has been almost no new investment in the past few years, and some plants even face severe losses; thus the incomes of salt industry employees are very low compared to all other industrial enterprises.

Meanwhile, with the rapid development of the "two alkali" industries, demand for industrial use salt has greatly increased and the price is higher than that of table salt, so that salt plants also tend to favor industrial salt over table salt production. Furthermore, across the country there is not enough raw salt to sell, the market supply-demand contradiction is becoming salient, profits on external sales exceed the internal sales, causing large quantities of Sichuan salt to flow far away to other provinces, tightening local sourcing. Moreover, tight transport and the failure of table salt allocation control plans to adapt to market changes have made table salt reserves in some prefectures, counties and cities weak. Many of the masses have been infected by the run on stores, fear table salt prices will rise, and thus snap up large quantities of salt for hoarding, a development that further exacerbates market shortage. The above-mentioned factors have combined to make "salt hard to buy" even in the big salt producing province of Sichuan.

### The Machination of "Profiteers" Is Execrable

In addition to the above-mentioned factors, there is another important cause of Sichuan's grain and salt shortages, and that is the fact that a multitude of "venerable profiteers" use every opportunity to fish in troubled waters, to loot burning homes, and to grow enormously rich, thus making market supply that was already abnormal even more chaotic.

As stated above, the state supplies the grain (minus natural losses incurred in storage, transport, and the like) it procures from peasants at prices less than costs to urban residents at prices far below the procurement price. Rice purchased with ration coupons at the state list price costs about 15 fen a shijin, which means that the state pays a subsidy of about 50 fen for every jin of rice it sells, and that residents in fact garner this hidden price subsidy every time they buy a jin of rice. Thus the state used to (and still does have to) devote much of its budgetary expenditure to cover various types of subsidies like this. This practice, once loudly proclaimed as "the superiority of socialism," now, after 10 years of reform, clearly conflicts with the goal of establishing a healthy and normal commodity economy.

Let us use rice as an example again. Sichuan has an urban population of about 10 million (namely, the resident-rice eaters) who, at a per capita average consumption of 30 jin, need a total of 300 million jin a month. So at 50 fen a jin, the state has shelled out 150 million yuan a month, or 1.8 billion yuan a year, for subsidies. And this is just for rice. What would the total be when you add in the other subsidies? Extending this computation to the national level, and at these averages and with the total urban population of the Chinese mainland at approximately 250 million, the state every year has to pay 45 billion yuan just to supply urban resident with grain!

What a "strange quagmire"! And what a heavy burden!

How wonderful it would be if the funds for this "secret subsidy" could be used to develop agriculture, education, energy, communications, and the like!

#### **Grain Ration Coupons Have Become Golden Opportunities**

In this way, the state's budgetary subsidization of grain is passed down from the central government and transformed into the different types of grain ration coupons issued by various levels of local government, the price value varies as conditions change but generally does not exceed state subsidy, so a small "price gap" exists therebetween. Thus, ever since grain ration coupons first were issued, there has been persistent speculative trading therein, even though the coupons carry the stern warning "not for resale," and there is no shortage of people who have gotten very rich in the process. Now that living standards have improved and consumption of grain has declined, urban residents have accumulated a growing stack of coupons which they got for free and are happy to trade for chicken eggs, sleeping mats, rattan chairs, cleavers, and all other daily necessities and tradeables. This has presented "ration coupon profiteers" with a golden opportunity to exploit.

A large number of "profiteers" have been reported all across the province. These profiteers use all sorts of tricks to wheedle grain ration coupons out of the hands of urban residents and, having done so, either take the coupons to villages to sell at high prices to nonfarming peasants, who then take the coupons back to cities to buy grain to eat; or sell the coupons to peasants to "deliver state grain," thus giving rise the bizarre practice of state granaries taking coupons to state stores to buy rice to "store in the granaries." Even worse, recently many "grain profiteers," "inspired" by the run on stores, have discovered that "coupons aren't as valuable as the real McCoy" and have hired people to buy up small amounts of grain from the stores at different times or have simply presented gifts or offered bribes to establish connections so as to buy up large quantities all at once, so that big batch after big batch falls into their hands. The profiteers then sell the grain to villages, to individual urban and rural restaurateurs or to other provinces at big profits or

simply hoard the grain and wait for the right moment to unload it. Several "venerable grain profiteers" recently nabbed in Wan County had more than several thousands of kg of grain stashed in just one of their lairs, including rice, wheat flour, corn, vermicelli—the works, and had lairs in many places, some of whose grain had already mildewed and spoiled.

Such cases have also been discovered in other places in Sichuan; the details are quite shocking. For example, in the case of "official speculation" recently uncovered at the Tuqiao Grain Station in Jintang County, employees of the station, with the tacit approval of their superiors, bought up 360,000 kg of grain coupons from Sichuan and the rest of the country in just half of a month, 21 September-6 October, taking to a grain station to buy 180,000 kg of rice and flour each at parity price, then reselling at negotiated prices at 2.4 to 4.2 times higher than the parity prices to their own station, reaping a staggering illegal profit of 260,000 yuan. As many as sixteen people were involved in this profiteering. Also, grain departments have disclosed that from April to September 1988, in Chengdu alone, the various kinds of grain ration coupons redeemed exceeded normal grain supply by as much as 30-plus million kilogram, a serious "surplus," which fact means that large amounts of parity priced grain was fraudulently bought by "grain profiteers" for resale at negotiated prices, causing the grain subsidy the state grants to urban residents to flow for naught into these profiteers' pockets.

Clearly, these despicable acts have fueled the flames of grain shortages.

#### **The New Policy Was Not a Bad Idea When It Was First Unveiled**

The scramble for grain rations between "profiteers," peasants, and urban residents has created all kinds of chaos. To plug the leaks, the Sichuan provincial government conjured up a new program, deciding that from 1 November last year that all urban residents in the province must take both their ration coupon books and their coupons to designated grain stores when they purchase grain. It was also stipulated that, for the convenience of employees living alone who lacked grain ration coupon books, these residents would only have to submit coupons when they purchase 5 jin or less of rice or small amounts of wheat flour, vermicelli, and the like.

This new policy was a good idea at first. Though it inconvenienced urban residents a bit, it did help ensure normal grain supply, prevent grain outflows, and check fraudulent purchase of grain and other illegal acts. However, when "a policy is adopted above, countermeasures are adopted below," and "profiteers" immediately seized on these latter loopholes, and everywhere wantonly recruited "5-jin buyers" to take turns standing in line, even recruiting many many little tykes to do the work. Although this countermeasure was a little more of a bother, as little grains of sand build a pagoda, the white grains of rice continued to stream into their sacks.

Thus several days later, the provincial grain departments issued an emergency notice ordering that the loopholes be plugged at once, that all purchasers of even one half a jin of rice and a jin of vermicelli be required to show coupon books and be registered, that total grain purchases may not exceed the rations for that month, and that purchasers go to designated grain shops to make their purchases. As soon as this order went out, these "profiteers" were left without a leg to stand on and had no choice but to throw in the towel.

But who could have known that, as one problem submerges another surfaces, residents began to stir up trouble again. While people's hypersensitivity had not yet subsided after the recent runs on shops during July, August, and September, newspapers reported recently that there was a drop in grain output for the year and that central authorities were planning to import grain. If the government was going to do this, would it not also scrap grain ration coupons or increase grain prices? During the 3 years of calamity in the early 1960s, local grain ration coupons were suddenly scrapped, causing a great hue and cry in central Sichuan, where the little people poured out one complaint after another. The words used then was "to better crack down on profiteering and speculating," but it was the people who suffered the biggest "crack," a "lesson" that is still fresh in Sichuanese memory. Thus people have "drawn lessons from bitter experience" and feel that "action speaks louder than words," so, to "avert the rut of the overturned cart ahead" launched, on the heels of the rush for general merchandise across the province during the third quarter, another run on shops, this time for grain, salt, and the like. And with the tight transport, sluggish supply, and other factors enumerated above, rice shops were emptied and table salt cleaned out, which developments only served to fuel the hysteria.

#### Emergency Meetings Produce Countermeasures

To deal with the salt shortage and the long lines to buy rice, the Sichuan provincial government, the Chengdu city government, and other units convened emergency meetings 12 November to discuss countermeasures. In the afternoon of the same day, the provincial government held a press conference at which Secretary General Liu Zhipeng [0491 1807 7720] announced that the provincial government had drawn up five measures on how properly to resolve the table salt supply problem. The principal provisions of the measures are as follows.

1. Salt production enterprises must strive to increase table salt output and market supply.
2. Salt supplied by localities may not be sold to large customers, involved in tied sales, or retailed; sales to individuals must be limited.
3. Practical measures shall be adopted to prevent blind outflows of salt from Sichuan.

4. Ties between the various localities of the province must be strengthened, and railway and communication [departments] must give priority to ensuring shipment of table salt.

5. Salt market control shall be strengthened; no unauthorized price hikes shall be permitted; private shipment and sale of table salt, industrial waste salt, and inferior salt is strictly prohibited; and those units or individuals who fraudulently purchase, hoard, drive up prices of, and profiteer in resale of salt shall be severely punished in accordance with law.

At the press conference, Liu Zhihui announced on behalf of the provincial government that the rule requiring use of grain ration books is only a temporary measure and that ration coupons will continue to be used and will not be scrapped.

Meanwhile, Chengdu issued a notice requiring all departments to work together well and urgently to conduct grain and salt allocation-shipment and supply work and ordering all grain stores to extend their hours of business, in order to fully ensure residents' regular grain supply and to reassure the public.

Following these emergency measures, table salt supply in Chengdu and other areas has relaxed, and rice shops now have rice to sell, even though the lines outside the shops are still in serpentine length.

Nevertheless, contrary to the original intentions of policymakers, the use of ration coupons and identification cards to purchase rice, designed to control grain supply volume and reduce outlays, in November and December of last year grain sales in the Chengdu region alone exceeded official estimates by several million kg. And this does not include the great decline in the "value" of grain ration coupons, whereas rice, flour, vermicelli, and other negotiated-priced presently available grains have greatly increased, thus raising the prices of the food and beverages served by individual, collective, and other restaurateurs and vendors by several to several tens of percentage points.

Nevertheless, the grain and salt problems did ameliorate, a major issue in the "people's livelihood" had indeed been resolved, and the entire society, from top to bottom, breathed a brief sigh of relief. Yet who could have known that just at this juncture ...

#### Another Eyebrow-Singeing Emergency Arose

Let us once again use the capital of Sichuan, Chengdu, as an example. While approximately 40 percent of the residents of that city use natural and liquefied gas for fuel, the other 60 percent, totaling 300,000 households and more than a million individuals, use honey comb coal briquettes. As early as 1987, the Chengdu Coal Development Company actually sold 407,000 tons of anthracite, but still has a supply gap of nearly 10 percent. And by March 1988, there were only 35,000 tons of coal stocks in the entire city, less than a month's supply. According to regulation, at least 4

months' supply is supposed to be maintained, so you can imagine how serious the "coal" problem was. In June, the Sichuan provincial government issued a resolution to have a crash shipment of 20,000 tons of coal sent to Chengdu during that month, but because 8 localities (totaling 10 counties) in the province had very few coal reserves, because rail transport could not meet demand and because of other reasons, the resolution was not carried out in full until 5 July.

Thus Chengdu's "coal" emergency had become a "new conundrum" by August 1988 and presented provincial and city leaders and other relevant departments with a real head-scratcher. By late August, large honey comb briquettes (which have a high sulfur content), whose state list price was only 4.8 fen a piece, were selling on the black market for 18 fen a piece when purchased with coal ration coupons and for more than 20 fen for non-coupon transactions. Haulers would line up before coal plants for 4 full days without sign of "coal," and the coal purchase coupons that were issued in July were by the end of September just scrap paper. After so long a "wait," there was no more tinder, much less "firewood," to be found in the city, so many coal-less residents had no choice but to start using scrap cardboard and old furniture to cook their meals, using the humorous, bitter euphemism, "The old don't go; the new ain't comin'."

Faced with this lack of "coal," the relevant leaders of Sichuan and Chengdu raced, with flames licking their eyebrows and like chickens with their heads cut off, to coal mines and railroad departments in various localities to establish "horizontal ties" and to "appeal to human attachment" therewith; urged that allocation shipments be expedited; thought up all kinds of targets and plans; pleaded for aid from fraternal provinces and municipalities; went in all directions to seek emergency help; begged "papa and grandma"; and almost knelt with hands in reverent clasp. And, indeed, Heaven has merciful eyes, such that the stoves of the residents of Chengdu finally "got a bellyfull" of honey comb coal around 1 October, even if the "coal content" in the coal was insufficient, so that the extreme emergency passed. Or perhaps it was just a matter of balancing—as the people in Chengdu would put it: This is "Y!" [as published] Now November and December are upon us, the dead of winter approaches, and we are in the peak of demand for coal; yet supply and reserves plummet, "an embarrassing empty wallet of coal." So how can society, from top to bottom, not be worried? If color television, refrigerators, tobacco, or alcohol rise in price, people can cope. If too unaffordable or worst comes to worst, one can always not watch, not use, not smoke, or not drink. But "man ain't iron, cooked rice ain't steel, so a missed meal makes a person dizzy with hunger; and the people take food as Heaven, and food is preceded by coal." Must we now take a leaf from Upper Cave Man's book and eat raw plants and chew uncooked rice? Even the "Chinese ape-man" knew how to use fire! Thus in mid-October 1988, the deputy mayor in charge of coal and other leaders of Chengdu dashed off to Beijing to

lobby relevant ministries and commissions of the State Council; pleaded with, petitioned, implored, and earnestly requested the Energy Ministry to raise Chengdu's external coal supply plan. Yet because the national coal emergency is not limited to Chengdu, the Energy Ministry could not conjure up any coal for the city, so the lobbying effort came to naught.

Coal supply in Chengdu remains very tight and is much worse than supply of grain and salt, for which "there is some guarantee." Looking ahead to this spring and to the future, coal supply prospects do not inspire optimism, and coal supply remains a big question mark.

## CENTRAL-SOUTH REGION

### Hainan Establishes Professional Education, Training

OW2604202589 Beijing XINHUA in English  
1523 GMT 26 Apr 89

[Text] Haikou, 26 April (XINHUA)—One hundred and seven professional schools and similar training centers, with a total roll of 30,000 students, have been set up in newly-established Hainan Province.

A provincial government official says that more than 150,000 people have graduated from them in the past few years.

Hainan abounds in natural resources, he says, and it can import development capital from foreign countries or other provinces. So it has adopted professional education as a way to equip people for employment.

The official says the provincial government has encouraged people to run unofficial schools and it has invited schools of higher learning in other provinces to set up branches in Hainan.

The Beijing Foreign Languages Institute, Chongqing University, Changsha Jiatong College and the University of International Business and Trade have set up 11 departments, including international economy, foreign trade and English language.

In addition, the democratic parties in Haikou, capital of the province, have set up seven professional schools and six centers to train 20,000 people.

In the countryside, 2,000 schools offering training in the culture of rice, aquatic breeding, animal husbandry and agricultural machines have been established.

At Mianpo Village, Qionghai County, courses in pepper growing have made the whole village wealthier. The income of each household reached 10,000 yuan (about 2,500 U.S. dollars) last year.

The official says that after training in one or two skills, trainees find jobs very quickly, and some grow wealthy.

**Anhui Officials, Taiwan Compatriots Hold Forum on 'Cooperation'**

*OW1005060889 Hefei Anhui Provincial Service  
in Mandarin 1100 GMT 23 Apr 89*

[From the "Provincial Hookup" program]

[Text] The Taiwan Affairs Office of the provincial government held a forum on the afternoon of 23 April at a conference hall on the second floor of the Anhui Provincial Committee of the Chinese People's Political Consultative Conference [CPPCC]. Over 40 Taiwan compatriots, representatives of family members of people living in Taiwan, and Taiwan members of the provincial CPPCC committee who attended the second session of the seventh provincial People's Congress and the second session of the sixth provincial CPPCC Committee, were invited.

At the forum, a person in charge of the Provincial Taiwan Affairs Office first briefed participants on the office's basic work on Taiwan in the last year, and on this year's work. Participants fully affirmed that Anhui Province had done a great deal of work to promote exchanges between the two sides of the Strait, and to promote the motherland's reunification. They put forward many good opinions and suggestions on how to further attract Taiwan compatriots to invest in Anhui, how to further promote economic contacts and trade between Anhui and Taiwan, and how to host visitors from Taiwan. They said: "As relations between the two sides of the Strait begin to improve, many Taiwan compatriots who come to visit their relatives in Anhui have hoped to invest in, and to do business with, Anhui. To go with this trend, the provincial government should improve Anhui's investment climate as soon as possible, work out favorable policies and regulations to attract investments from Taiwan, properly prepare for Taiwan compatriots' investments and imports of production technology from Taiwan, and attract large amounts of Taiwan capital in order to revitalize Anhui's economy." They added that they would strengthen contacts with their relatives in Taiwan and foreign countries, and work wholeheartedly with all the people of Anhui to bring about the motherland's reunification and speed up Anhui's economic development.

**Business Contacts Between Mainland, Taiwan Papers**

*HK2804070589 Beijing ZHONGGUO XINWEN SHE  
in Chinese 1436 GMT 23 Apr 89*

[Report: "Guangzhou's YATAI JINGJI SHIBAO Starts Business Cooperation With Taiwan's TZU LI TSAO PAO and TZU LI WAN PAO"]

[Text] The press circles of both sides of the Strait, which have not contacted each other for 40 years, have begun to enter a stage of substantial business cooperation. Recently, in order to make unofficial contacts and

exchange, Guangzhou's YATAI JINGJI SHIBAO and Taiwan's TZU LI TSAO PAO and TZU LI WAN PAO signed a "Draft Agreement on Exchange and Cooperation" in Beijing.

A report on the current "Guangzhou Spring Trade Fair" and what the Taiwanese businessmen do at the fair, provided by YATAI JINGJI SHIBAO, has already been sent to Taipei. It will be carried by TZU LI TSAO PAO and TZU LI WAN PAO as a special contribution.

YATAI JINGJI SHIBAO is an economic weekly run by the Guangdong Provincial Academy of Social Sciences. It mainly carries articles concerning economic information and theories. Its reporter in Beijing met with TZU LI WAN PAO reporter Hsu Lu at the end of last month, and both sides held a talk on their cooperation.

It has been learned that in this cooperation, both sides will chiefly exchange articles and reporters and objectively and directly report the cultural, economic, social, and political trends of the other side. They will also make efforts to dispel prejudices and surmount ideological obstacles through dialogue and cooperation.

**Taiwan News Agencies Register To Cover News in Mainland**

*OW2804133989 Beijing XINHUA Domestic Service  
in Chinese 1351 GMT 19 Apr 89*

[From Local Broadcast News Service]

[Text] Hong Kong, 19 Apr (XINHUA)—According to a dispatch from Taipei, on 18 April when Taiwan authorities announced the "registration for covering news in the mainland by journalists at the current stage," 16 Taiwan news agencies registered.

The 16 news agencies are TAIWAN XINWEN BAO [TAIWAN HSIN WEN PAO], TAIWAN XINSHENG BAO [TAIWAN HSIN SHENG PAO], Taiwan Television Enterprise [TTV], China Television Company [CTV], China Television Service [CTS], International Community Radio Taipei, Broadcasting Corporation of China, China News Agency, ZHONGSHI WANBAO [CHUNG SHI WAN PAO], LIANHE BAO [LIEN HO PAO], SHOUDU ZAobao [SHOU TU TSAO PAO], Public Opinion News Agency, Asia News Agency, CHINA POST, CHONGYANG RIBAO [CHUNG YANG JIH PAO], and ZIYOU SHIBAO [TSU YU SHIH PAO].