

CHINA: THE ECONOMIC CRISIS

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Ever **since** the victory of the Chinese Revolution in 1949, the different factions and coalitions of factions that have succeeded each other at the head of the Chinese Communist **Party** (CCP) and governments have faced a series of strategic problems rooted in the country's backwardness. They include:

1. How to feed a population that grows by between ten and fifteen million people a year, when China's traditional agriculture is already among the most productive in the world and it will not be possible for a long time yet to resolve the problem through a radical modernisation. Related to this question is the attitude towards population growth as such: should one favour it (as Mao did), oppose it by crude material disincentives or repression (as Deng does) or adopt some third road?

2. How to reduce the **enormous** extent of rural underemployment and urban unemployment caused by demographic growth and the inevitable rural exodus.

3. How to divide national income between consumption and accumulation, and the accumulation fund between agriculture, heavy industry and light industry; and how to deal with the consequence of these decisions for feeding the population, providing employment and stimulating productivity.

4. How to organise planning and management and to gauge the implications of the techniques chosen for the rate of growth, the satisfaction of basic food needs, and the degree of social equality and social tension; as well as the repercussions of these implications on the relative efficiency of planning itself.

5. How, and at what pace, to industrialise and modernise China, for whatever the idealists may say to the contrary, modernisation cannot go without industrialisation. This modernisation is indispensable not only for national defence, but also for satisfying the population's most basic needs, including literacy, universal medical care and the raising of the general cultural level.'

6. What position to take up in relation to the world market that avoids autarchy on the one hand and total integration on the other, since total integration would mean that China's forms of development would be determined by the logic of capitalist profit and imperialist super-profit.

To be schematic and overly simple, one might sum up the choices as follows. *Grosso modo* the Chinese peasant family produces one ton of cereal per work-year. How much of this ton of rice or wheat should it keep for its own consumption (which presently fluctuates between **300** and **350** kg per year) or for that of the village as a whole? What proportion of it should stay in the village for agricultural accumulation? If this proportion is changed, relatively or absolutely, what effect will that change have on the productivity of agricultural labour, on the rate of growth of agricultural production and on the peasantry's degree of tolerance for the regime?

How much of this ton of rice should go to the cities to feed workers and bureaucrats, or to be exchanged for foreign capital goods? What would be the implications of the decision made here for the rate of industrial growth, the pace of industrialisation, the productivity of industrial labour and the lowering of unemployment? In what form should the agricultural surplus be extracted from the village? By forced levy? By manipulating market price mechanisms? And what would be the consequences of the method of extraction for the satisfaction of basic food needs and the degree of inequality within the peasantry itself?

Changes in Economic Policy since 1949

After **1949** the CCP leaders at first committed themselves to a **Soviet-style** policy, although they behaved much more cautiously than the Soviet bureaucracy towards the peasantry. But it soon became clear that China was too underdeveloped to follow Stalin's path to industrialisation. In ten to fifteen years some **200** million young people could be expected to leave the villages for the cities. To give each a job would cost at least **\$2000** in investment (at **1955-65** prices). This would have meant investing **\$400** billion in industry. But such an amount was clearly beyond the purse of an economy whose annual national revenue was calculated at only **\$50** billion in **1957**.² Moreover since traditional Chinese agriculture is already highly productive, to increase that productivity so that it was capable of feeding **200** to **300** million more individuals would be impossible without massive mechanisation. Already the marginal productivity of Chinese agriculture is falling disastrously because the Chinese peasant (who throughout large parts of the country is better described as a gardener than a farmer) can no longer increase output without huge amounts of new investment in chemical **fertilisers**.³ It is hard to imagine a more vicious circle. There could be no big increase in industrial production unless there were one too in agricultural output. But agricultural output would only rise quickly if investment in it were greatly increased, which required a big increase in industrial output. Clearly a change of course was necessary. And so one after the other the following economic policies were adopted.

During the Great Leap Forward of **1958-62** the focus was on 'labour-investment', i.e. mobilising the peasantry's underemployed labour on projects designed to raise agricultural production (including irrigation works, backyard blast furnaces and workshops to produce simple agricultural tools). The original idea was not wrong. But it soon became coupled with an excessive extraction of agricultural surplus and even of the agricultural necessary product by the state, and with bureaucratic methods of leadership. The peasants became dissatisfied, and output dropped disastrously.

In **1962-66**, during the period of 'rectification' and cautious **modernisation** under Liu Shaoqi and Deng Xiaoping, the centralisation of agricultural labour in giant communes was abandoned. Brigades incorporating several villages and even work teams (incorporating one village) became the basic units of production. The communes retained only a few of their functions. Peasants were allowed to dispose of a limited part of their farming surplus on the free market. Plans were laid for the modernisation of some branches of industry. At the same time, China embarked on a policy of autarchy as a result of the simultaneous Soviet and Western blockades.

In **1966-71**, during the Cultural Revolution, the private sector was hard hit but it was not completely abolished (especially not in the countryside). During this period the strategy of 'labour-investment' was followed in industry as well as in agriculture, particularly in the oil industry, which made its first important advances thanks to the extensive application of labour (the Daqing experiment). Autarchy was stressed more than ever before or since, and modernisation stopped. There was probably even some disinvestment.

In the period **1971-76** Zhou Enlai and Deng Xiaoping succeeded in putting an end to autarchy by making overtures to Japan and the West. China began once more to import modern technology, although these imports were still only on a limited scale. A free market for the agrarian surplus, which was left in the hands of the peasants, was partially re-established. But this 'new course', which oscillated between the policies of the Cultural Revolution and those of the period **1962-66**, was constantly challenged, and it scored no striking successes.

After Mao's death in **1976** the Deng Xiaoping leadership committed itself more wholeheartedly to the Four Modernisations and speeded up China's reintegration into the world market, the search for capitalist credits, the dismantling of the People's Communes, and the full rehabilitation of material incentives. But the very magnitude of the turn threw the economy off balance again in **1979**. A new adjustment became necessary.

For nearly two decades workers' wages and real income had stayed practically frozen, and the communes' 'surplus' labour was hired out to industrial enterprises at wages well below the official rates. When these

'coolies of Mao' demonstrated against their conditions during the Cultural Revolution, they were accused of 'economism' by the extremist Maoist faction and harshly repressed.

Bureaucratic privileges were slightly reduced during the Cultural Revolution: and the technocratic layer lost out to the political cadres and the military. But despite Mao's promises and the Red Guards' demands, there was no workers' power in the factories, let alone in the country as a whole. After 1968 the more militant layers of youth and workers were harshly repressed by the 'Gang of Four', which explains why the Maoist leaders got no mass support when they were finally removed from power.

Since 1976, workers have had their wages raised and their conditions improved. Between 1978 and 1980, around 60 per cent of urban **wage**-earners were said to have received a modest increase of 10-15 per cent. But at the same time the power of the technocratic wing of the bureaucracy has grown rapidly. Social inequality has widened, so that wealth and poverty mingle in the cities more than at any time since the early 1950s.

The Four Modernisations

The decision to strive towards the Four Modernisations was taken above all because the Chinese leaders came to see that China could never be transformed into a modern great power before the century was up if they continued with their policy of relying mainly on 'labour investment'. Such a policy would have brought social tensions to the point of explosion. To freeze (or, even worse, cut) living standards over the next quarter century would raise neither industrial nor agricultural output. It would also have made it impossible to integrate the mass of unemployed (in the cities) and the underemployed (in the villages) into modern industry in the foreseeable future.

And so a more pragmatic strategy was developed. This strategy foresaw combining accelerated development of modern industry through applying foreign aid with the development of the private or the cooperative sector, which despite its low productivity would at least absorb some workless.

So this is not a return to the Stalinist model: for Deng's economic policies have no more in common with Stalin's line than did Mao's in their time. If Deng's policy has any precedent at all, it is rather in **Tito's** Yugoslavia (but without the workers' self-management) or better still in the 'Hungarian reforms'. Rehabilitating the market economy and material incentives is the foundation of Deng's strategy (or rather, of the strategy of Hu Qiaomu, Zhao Ziyang and Chen Yun, who are the reform's true initiators).

According to the new strategy, it is the market that will connect the various economic sectors: the 'leading industries' from which **modernisation** of the country's entire infrastructure is to proceed; the 'export

industries', i.e. plainly oil, coal and textiles, but also many industries competing with Hong Kong and Taiwan; agriculture (which is to be stimulated by increased supplies of chemical fertiliser⁵); industrial consumer goods; and the rapidly expanding private and cooperative sector.

China's new prime minister, Zhao Ziyang, had already tested this new strategy extensively in the country's most populous province, Sichuan, which he administered from 1975 to 1979. In Sichuan he dismantled the People's Communes more vigorously than anywhere else in China. The peasant family (rather than the brigade or production team) was made responsible for achieving production goals, and got the 'three freedoms': bigger private plots; a bigger free market on which to dispose of its surpluses; and the chance to form private non-agricultural enterprises (mainly in handicrafts and commerce). According to the *Neue Zürcher Zeitung* (5 December 1980) private activity today procures on average 40 *yuan* per year per peasant household, i.e. some 30 per cent of their total income, but with great differences between 'rich' and 'poor' communes, villages and households.

But at the same time Zhao Ziyang returned to one of the main themes of Mao's economic policy during the Great Leap Forward and the Cultural Revolution (although Mao himself had more and more clearly abandoned it after 1970): the idea that rural industry should be developed to serve the needs of the peasants and of agriculture, and that this industry should be mainly financed by agricultural expansion (or even by 'labour investment' in the villages). But Zhao, unlike Mao, is trying to reach this goal by crude but effective 'material incentives' rather than by political mobilisation, indoctrination or coercion.⁶ However, the basic premiss stays the same (and in this sense the fundamental difference with Stalin and Khrushchev remains): that China's cities and her modern industry cannot absorb the labour surplus of her villages, and that another way must be found.

Overheating and Skidding

After a fine start—industrial output is said to have risen by 14.3 per cent in 1977 and 13.5 per cent in 1978—the Four Modernisations soon came up against some intrinsic obstacles.

1. Exports did not grow at the same rate as imports of modern technology. Oil extraction in particular has stagnated, mainly because of bad management and lack of modern technology. One illustration of the problems facing this industry was the oil-rig disaster in the Gulf of Bohai, when 72 workers died.' Oil exports to Japan seem to be falling. They are expected to drop from 9 million tons in 1981 to 8.3 million in 1982, whereas the original contract foresaw increases of 9.5 and 15 million tons respectively.⁷

Had China maintained the pace of modernisation projected since

1975-76, she would have accumulated a colossal debt on the level of Poland's or even Brazil's. The trade deficit with the imperialist countries rose from **\$1.2 billion in 1977** to **\$3.5 billion in 1978** and **\$4.5 billion in 1979** (although it is true that this was partly offset by a favourable balance with Hong Kong of **\$1.7, \$2.2 and \$2.6 billions** over the same period). The US Department of Commerce forecast in July **1980** that China's gross external debt of **\$3.5 billion in 1980** (with an annual debt service of **\$2 billion**) would grow to a minimum of **\$16 billion in 1985** (with an annual debt service of **\$3.2 billion**).

This the Chinese leaders were not prepared to accept, so they cut back heavily on their original plans, cancelling some of the more expensive projects and slowing down the overall pace of expansion. In particular they cancelled various plans to import whole factories⁹ In his speech resigning as head of the government, Hua Guofeng officially announced that the **1976-85 Ten Year Plan**, which had incorporated the most ambitious goals of the Four Modernisations, would not be carried out.¹⁰

2. Many modernisation projects set up since Deng returned to power have failed or fallen short of the desired results because of lack of qualified staff, planning errors, bureaucratic negligence and workers' indifference. These problems were similar to those facing Poland under Gierek, but the comparison is hardly useful, since China is so much larger and less developed than Poland.

Two scandals symbolised these failures: the Wuhan Steelworks, which was supposed to produce four million tons of steel and was bought in West Germany at a high price, was without enough electricity had been overlooked in the plan; and the Baoshan Steelworks near Shanghai, ordered from Japan with a capacity of six million tons, was assigned a construction site in the middle of quicksands."¹¹

More generally, output targets in steel, oil and agricultural machinery were greatly scaled down. Priority was no longer to be given to steel ('cereals and steel' were the two axes of economic expansion under Mao); the goal of **60 million ingots of steel by 1985** seems to have been reduced to **45 million**. Also abandoned was the hare-brained scheme to achieve 'rural mechanisation in the main' by **1980**, which had been reconfirmed as late as January **1978** and would have meant manufacturing the equivalent of **3.5 million units of fifteen-horsepower tractors and motorised implements in the space of three years** (as opposed to a more realistic target of six to eight years).¹²

Coal, by contrast, will get high priority, and may make up for declining oil exports to Japan, as well as cover China's energy deficit (which threatens to get worse in coming years).¹³

3. It was impossible to reconcile concessions to peasants in the form of increases in the purchase price of agricultural products and to workers in the form of higher wages. As a result, inflationary pressures built up and

there were shortages of some staple goods.

In mid-1980, the rate of inflation was put at 6–7 per cent;¹⁴ by the end of the year there was talk of a 15–20 per cent inflation." The main cause of this inflation is China's large budget deficit—her first ever since 1949. This deficit has been put in the \$10 billion range, representing 15 per cent of the entire budget expenditure for 1979. (Other sources give the figure of \$12 billion.)¹⁶ It was mainly to cut this deficit that austerity was introduced and investment policy was readjusted.

4. Covert resistance to the Four Modernisations by part of the political leadership—especially the military—has delayed, curbed and even prevented reforms and has further increased the imbalances. But this 'resistance' probably stems as much from the incompetence of officials selected in the course of factional struggles as from genuine political disagreements.

5. There have been less joint ventures with foreign capital than was originally expected. At first most of those capitalists who entered into joint ventures were Overseas and Hong Kong Chinese. They were granted important concessions in exchange for participating in these schemes, including the recovery of all bank accounts expropriated during the Cultural Revolution and the restitution of various compensation payments suspended between 1966 and 1976. The new policy got off to a bad start when output fell instead of rising at the Jiang Shu Spinning Mill in Guangdong Province, which was the first of these joint ventures set up with a Hong Kong and a Macao firm.** By late 1980, only thirteen of the 800 joint venture projects submitted had been definitively approved and were operational.¹⁸ To make up for lost income the Deng regime has even begun to export cheap labour,¹⁹ but here too the results have been meagre, at least up to now.

To summarise, one could say that Deng's modernisers have committed the same sin as Mao and his supporters: that of immoderation. They have set out to do too much too fast, even though the means they used were different from those used by the Maoists.²⁰ Of course, this was hardly a coincidence. When the same mistakes are made so frequently, it is not enough to put them down to the innate defects of the bureaucracy alone. One should seek their roots also in objective problems. For a poor, backward country like China to feed, house and provide even a minimal level of welfare for one billion human beings is a colossal task that will need a Herculean effort to resolve.

Any government in power in Beijing that does not serve the interests of a possessing class subordinated to foreign interests would face the same drama. Its historical villains are not the Chinese Communist leaders, but the foreign imperialists who plundered China, dismantled her economy and mired her in underdevelopment; Stalin, Khrushchev and Brezhnev, who did their best to subordinate the Chinese Revolution to their own state interests; and the leaders of the American, European and Japanese

workers, who refused to lessen the colossal weight of China's underdevelopment by broad, generous and disinterested aid. World revolution will make up for these shortcomings. But in the meantime, while we wait and fight for its victory, those billion mouths must be fed. Here and nowhere else lies the main source of the twists and turns of the **CCP's** economic policy since 1949.

Social Tensions

Alongside problems connected with the modernisation drive, important social tensions have appeared at all levels of Chinese society. These tensions are not new. They also plagued earlier phases of China's economic development. But economic 'liberalisation' unquestionably sharpened them, while the limited 'democratisation' of 1978-79 and the growing scepticism of workers and youth towards all factions of the Party allowed them to be displayed more openly. Among these social tensions we should note the following.

1. The rise of youth unemployment in the cities. Youth unemployment was already an important factor in the emergence of the Red Guard movement. It was resolved in a particularly **cruel** way when **Lin Biao** and the 'Gang of Four' liquidated the **Cultural** Revolution and deported huge numbers of these youth to the countryside. Even though ideological indoctrination at first softened the impact on some of the victims, most soon changed their minds, especially when they saw that the peasants' welcome was less than lukewarm (for the one thing that Chinese agriculture needs least is more labour).

As a result, great masses of young people returned illegally to the cities, where they started a crime wave. They had to live mainly by their wits, since they had neither residence permits nor work permits. It seems likely that the terrorist incident at **Beijing** Railway Station on 29 October 1980 was the work of a young desperado of this **type**.²¹ The authorities' response to the youth troubles was surprisingly mild. This is because the Deng faction does not (as yet) want to be associated with the massive deportation of youth in the years **1968-70**.²²

In September 1978, 50,000 young people working on state farms in Yunnan went on strike, and in December thousands of unemployed youth staged demonstrations in Shanghai. In early 1979 some youths rioted in Shanghai, blocking rail **traffic** for twelve hours. Two 'ringleaders' went to prison for nine and five **years**.²³

It is therefore obvious why the Chinese leaders are concerned about the problem of youth unemployment, and cautious in how they treat it. The size of the problem is staggering. Some twenty million young people are thought to have been deported to the countryside in the late sixties and early seventies. Of the twelve million urban young people who left school in 1979 and were looking for jobs, only seven million got **them**.²⁴

The Chinese leaders have tried to bring down this unemployment in two ways that combine typical features of the Deng approach. One way is to use material incentives and the free market to channel the problem out of the public sector. Young people are now allowed to set up small retail businesses and workshops, or to enter the repair trade. China is experiencing a rapid expansion of the 'service sector', as have many underdeveloped capitalist economies. Of course the authorities tend to favour cooperative enterprises, but even private initiatives are tolerated.

Another way is by encouraging resettlement in the countryside, although the coercion used under Mao has been replaced here too by a system of material incentives. One million young people are reported to have organised 30,000 collective farms where they can earn twice what they would in a People's Commune and almost as much as in the cities.²⁵

2. Increased differentiation in the countryside. The gradual dismantling of the People's Communes and the key role that the market is increasingly playing in the rural economy can only accentuate social differentiation in the countryside. As in the Soviet Union in the 1940s and 1950s, the difference between rich and poor areas (communes and brigades) and even between rich and poor peasants is growing now that the old levelling drive (which led to a dangerous slowdown in the rise in food output) has been abandoned.

Zhao Ziyang's flatterers stress that Sichuan peasants now take their (private) pigs by (private) bike, (private) motorbike or (cooperative) truck to be sold on the free market. The watchword is familiar: Enrich yourselves! But for how many People's Communes, or for that matter how many Chinese peasants, is this prospect realistic?

I have already mentioned that according to official sources the average farmer's income is half that of the average urban worker's, which is 75 *yuan* a month. It is easy to picture the poverty in which a great part of the Chinese peasantry still languishes—especially that part of it which carried the Revolution to victory thirty years ago. Vice-Premier Yao Yilin recognised that ten per cent of peasants do not eat enough to still their hunger. Here too the discontent has acquired political form. In January 1979 tens of thousands of peasants demonstrated in Beijing under the slogan 'Down with famine!'

The average income per peasant household is said to oscillate between 30 *yuan* a year in poor communes and 400 *yuan* a year in rich ones (45 and 450 *yuan* if you add that part of the grain harvest that the peasants consume.) Average income per peasant household is estimated at around 100–120 *yuan* a year. One leader of the Deng faction has even claimed that the average peasant consumed less cereals in 1978 than in 1957.²⁶ But this claim is not too credible, and was probably intended to paint the Maoist years in the worst light. The American journalist Felix Butterfield reported that according to Chinese government sources, life

expectancy in China has risen from 32 years in 1949 to 68 years in 1978.²⁷ Since average consumption in 1957 or 1937 was below 2000 calories per day per person, any further reduction in calorie intake would have ruled out a rise in life expectancy in a country where 80 per cent of the population still live in the countryside. The same point could be made about Nicholas Lardy's claim that per capita food intake was lower throughout the years 1958-78 than it was in the 1930s.²⁸

The Deng faction's policy of encouraging the free market has led to reactions that Mao foresaw and feared: rich communes, rich brigades and even rich work teams are more interested in growing crops that sell well on the market than cereals to be delivered to the state at **fixed** prices. As a result cereal output has stagnated and even dropped, while agricultural production as a whole has **risen**.²⁹ According to official sources 14.6 per cent of farm products were sold on the free market in 1978.³⁰ The government's dilemma is cruel: either raise the price of the cereals it buys from the communes (which would increase the budget deficit and quicken inflation) or return to a system of fixed quotas, *i.e.* severely restrict the newly granted 'market freedom'.

3. Growing urban inequality. This is the combined result of various factors, including salary rises for top officials; the restoration of the privileges of the 'national patriotic bourgeoisie'; the extension of the private sector; and the massive reappearance in China after thirty years' absence of well-to-do foreign tourists, businessmen and technicians, and Overseas Chinese. Things like luxury stores, luxury goods, luxury restaurants, the black market, prostitution and the like, which were cut to a minimum or discretely hidden from view in the decade before Mao's death, are now openly flaunted.

Foreign currency plays a key role in widening and consolidating social inequality, just as it does in the Soviet Union and Eastern Europe. China now has a sprawling black market in Hong Kong dollars, Japanese yen and other strong currencies, where domestic and foreign luxury goods (including illegally imported ones) are up for sale. Tourists are considered one of the main supply sources for this market, and the authorities now require them to exchange their currency for Chinese 'special money' in an effort to prevent the black market getting out of hand. But this has merely led to a new black market in 'special **money**'.³¹ Like Eastern Europe's 'foreign currency stores, this alternative money circuit has led to protests and demonstrations by some **Chinese**.'³²

The regime is trying to make the politicians who came to power through the Cultural Revolution into scapegoats for the growing inequality. Official propagandists have exposed amazing cases of corruption among the 'Gang of Four' and their supporters. The **corruption** of the Party bureaucracy under Liu Shaoqi and Deng (which was no less genuine) was similarly denounced during the Cultural Revolution. But when jobless youth and

low-paid workers see privilege flaunted once again and on an even wider scale under the present regime, it must occur to them that the various trials and purges of the last few years were none too effective. The conclusion must be that grave social tensions are accumulating in China, and that a Polish-style explosion is not to be ruled out in the coming years.

The New Management Model

During the second session of the Fifth People's Congress, Deng explained that factory life was to be democratised in the framework of overall 'economic liberalisation'. But he emphasised that 'democracy' was to be firmly wedded to 'centralised leadership'. Just as the Party is centralised at national and provincial levels, so should firm management be centralised in the hands of a director. Workers would gain the right to elect team and workshop leaders, but not directors.

As for the various Western comments about the 'rehabilitation of profit' and even the 'return to a market economy', they are as wrong now as they were about the Liberman-Trapeznikov reforms in the Soviet Union. What the debate in China is really about is what criteria central authorities should use in judging an enterprise's performance. Should they look at gross product, total transactions (sales figures), 'added value', or profit? Profit is far from becoming the autonomous motor of economic development, but is simply an instrument for achieving the plan. Firms have been granted neither the freedom to fix (or change) prices nor, where essential products are concerned, the freedom to change the assortment they have been assigned to manufacture. In one sense (as Thierry Pairault rightly noted),³³ the central institutions' control over large institutions is even stronger under the new management system than it was in the past. For although firms may now choose their suppliers and contract relations are therefore established between firms, all expenditure must now pass through the banking system, which has become—as in the Soviet Union—the main instrument through which the implementation of the plan can be checked. Any expenditure outside the framework of the plans for producing and supplying the main products will not be authorised by the banks and is therefore impossible. The role of profit (apart from its use in accounting) is reduced to that of a small 'material incentive', in the sense that workers get increased bonuses that average out at some ten per cent of wages. (No doubt bureaucrats will benefit more from it, but as yet there is no evidence of this.)

On the whole one gets the impression that the big changes have taken place not so much in large industry as in local and rural industry. During the Cultural Revolution when (partly for defence reasons) the idea of provincial self-sufficiency was pushed very strongly, it was above all **small-scale** local and rural industry that was affected by decentralisation. At the same time efforts were made to develop a parallel basic industry (mainly

steel, but also energy) in each province, to be managed by provincial and local authorities.

Once again, despite appearances, the change brought in by the current reform moves more towards centralisation than decentralisation. The idea of 'backyard blast furnaces' has been abandoned once and for all, as has that of provincial self-sufficiency. The emphasis is now on the diversity of natural resources and the need for a greater division of labour between local industries on a national scale. This has inevitably reduced the weight and power of local authorities in favour of that of managers on the one hand and central branch administration on the other, although it has not meant a return to the old Stalinist system in which ministries in each branch controlled everything from the top. It is possible that these administrations will be replaced by national 'trusts'. In the new climate the government encourages local and provincial units to develop new resources in whatever ways they see fit; but these local and provincial initiatives must stay within the broad framework and under the ultimate control of the central authority.

I should stress that this does not mean that the weight of the market has not greatly increased under China's new management system, or that 'Hungarian-style reforms' did not really take place. There is no doubt that the cooperative and private sector, i.e. that sector of the economy outside state control, has broadened greatly in recent years, both in the cities and the countryside. Moreover the new self-management system, which was introduced cautiously and in the most profitable firms first, gives the managers a wider margin of manoeuvre and uses rivalry and competition between firms to improve productivity. But there has been no challenge to the general framework of top-down centralised planning or to the bureaucratic determination of priorities in distributing and developing national resources by a small handful of top bureaucrats.

But here a problem arises that already became apparent in the Soviet Union during the Liberman-Trapeznikov reforms. Although profit is 'in command', the firms (i.e. the managers) are not able to influence the essential determinants of profit, i.e. the price of raw materials and machines; the wage fund; and the sale price of finished products. No wonder the technocratic wing of the bureaucracy, like its counterparts in Hungary and Poland, would like to extend the reforms in the direction of granting directors the right to fire workers. (The director of a Chongqing steelworks that currently employs **40,000** workers would like to see his workforce cut by half.)³⁴

Moreover growing inflationary pressures and recent budget cut-backs have now been translated into what is clearly a policy of austerity. Wages will not be raised by **15-20** per cent **as promised**, and the whole question of bonuses will be reexamined in the light of the need to 'tighten up'.

General Balance Sheet

A balance sheet of China's economic evolution since the Great Leap Forward, and even more so since **1949**, leads to two general conclusions.

First, it is now clearer than ever that socialist revolution in China was necessary and historically justified. The Chinese Revolution matches the Russian one as the most important and progressive event of the century. It brought about changes that benefited huge numbers of human beings—this despite inordinate costs and sacrifices, some avoidable, others not.

Today this positive assessment of the Chinese Revolution is challenged not only by pro-imperialists and by Moscow, but also by some anti-Maoists in the Chinese leadership. But facts are stubborn. Contrary to a current legend, China's economic progress over the last thirty years has easily outstripped that of India. Official statistics of the present leaders show that if China's per capita output is stated as **100**, India's stood at **68** for cereal production, **60** for electricity, **48** for steel and 46 for cement.³⁵ The area of Chinese farming land that is irrigated has grown from **60** million acres in **1949** to **110** million in **1980**. Nothing of the kind has happened in India.

Social conditions vary greatly from one area of China to the next, and even from one village to the next. There is still terrible poverty in China. But that she has progressed enormously is beyond dispute. Felix **Butterfield** summarised the progress made as follows:

Every day, just after noon, in the office buildings of **Beijing** many employees carefully clear away their desks and unfold sleeping bags. They prepare for one of the most important and satisfying rites of Chinese life, the long noon nap, the *xiuxi*.

. . . An American engineer who visited an oil-prospecting platform in the South China Sea was surprised to see that the workers stopped drilling at lunch time. They stopped all the machines and went to sleep. . . The *xiuxi* is one of the comforts brought about by the Communist revolution. It is even codified in the Constitution, whose Article 49 states: The labouring people has the right to rest. Instead of the constant threats of famine, banditry and pestilent epidemics which haunted the country before 1949, the Communists have created what sometimes looks like a giant welfare state.

In addition to a generous rest period, there is guaranteed employment for life, a system called the 'iron rice bowl'. It is almost impossible for a factory to fire a worker if he is not a thief or a murderer. Medical care and education are free. Urban housing is heavily subsidised; the average rent is about \$2.70 per month.³⁶

One might object—and one would be right—that this leads to a very low level of labour productivity. But it was no higher under the old regime, and then it went coupled with intolerable physical effort and unconscionable misery for the mass of the producers.

What are the causes of China's progress? The main one is that China's labour power is no longer a commodity, that there is no longer a labour

market in China, that workers have job security and a guaranteed minimum wage (despite the enormous mass of unemployed), and that the means of production are collectively owned (although the state that controls them is highly bureaucratised). This shows that capitalism has not been restored in China, and that China retains an economic structure comparable to that of the Soviet Union, the 'people's democracies', Yugoslavia, Cuba and Vietnam, which sets in motion the same long-term dynamic and similar economic problems.

Second, the enormous weight of underdevelopment has imposed rigid constraints on China's economic development. These constraints have remained remarkably unchanged over the last thirty years, despite violent political convulsions. Rhetoric apart, what strikes one about China's economic policy over the past thirty years is not so much its change as its continuity. When it came down to fundamental choices, all leadership factions gave priority to developing heavy industry and systematically neglected light industry (see Table 1), even though light industry is the most developed part of Chinese industry and extremely important both for satisfying immediate needs and for exports.

TABLE 1

Light industry's share in total investment

First Five Year Plan, 1953-57	5.9%
Second Five Year Plan, 1958-62	3.9
Third Five Year Plan, 1966-70	4.0
Fourth Five Year Plan, 1971-75	5.4
1978	5.4
1979	5.8

(The figures for the Five Year Plans up to 1975 are from *People's Daily*, 25 May 1979. The figures for 1978 are based on reports by You Jiuli and Jiang Jingfou in *People's Daily*, 29 and 30 June 1979.)

Faced with the problem of a modern industry that constantly threatened to go under in an ocean of archaic production, all factions maintained and tried to strengthen central tutelage over large-scale industrial enterprises, although the means they used to do so differed greatly. This is true not only of Deng's faction but also of Mao's (although many of Mao's Western admirers blithely ignore this).

Faced with the problems of satisfying food needs and the threat of famine, all factions have regularly imported large amounts of cereals, ranging from 3 million tons in 1971 to an estimated high of 10.5 millions in 1981.

But it would be wrong to assume that this basic continuity is an automatic result of the constraints of underdevelopment. The only inevitable

CHINA: THE ECONOMIC CRISIS

TABLE 2
Economic growth, 1952-79

	1952	1959	1979
Steel (millions of tons)	1.3	13.3	35
Coal	66.5	347.8	635
Crude oil	0.4	5.5	106
Cement	2.9	6.0	73.9
Chemical fertilisers	0.2	2.0	53.5
Cotton thread (millions of bales)	3.5	8.2	14.7
Bicycles (units)	80,000	?	10.1 million
Radios	—	?	13.8 million
Watches	—	?	17.1 million
Electricity (billions of KWh)	7.3	41.5	282
Cereals (millions of tons)	164	185-200	332
Cotton	1.3	2.4	2.2
Sugar	0.45	1.1	2.5
Pigs (millions at year's end)	90	140	319

(The figures for 1952 and 1979 are from Chinese official sources. The figures for 1959 are from Jacques Guillermaz, *Le Parti Communiste Chinois au Pouvoir*, Payot, 1972.)

outcome of these constraints is that the choice range is narrowed. No economic policy could give one billion Chinese a level of consumption and culture comparable to that of industrialised or even semi-industrialised countries. But precisely because the range is narrow, the consequences of bureaucratic management and planning, wrong policies, bad investments, wasted resources and the smothering of mass initiative have been far worse in China than they would have been in more developed countries.

The crisis of the Chinese economy is a crisis of its bureaucratic management and not of its socialised nature, and in this sense China is basically no different from the Soviet Union and Poland. It is a crisis of the under-production of use-values, not a crisis of the over-production of **exchange-values** as in the capitalist countries. It is a crisis of the under-utilisation of resources (material and human), not a crisis of the over-accumulation of capital.

The Chinese case confirms that socialist democracy is not a 'luxury for rich countries'. It is not an ideal that can only be achieved after the final elimination of imperialism, but that in the meantime must be subordinated to the imperatives of *Realpolitik*. Socialist democracy is a material, immediate requirement in *all* the workers' states, the indispensable condition for a minimally rational use of material and human resources, the only framework that can permit a minimally harmonious planning, and the only means to cut waste, incompetence and fraud in the management of the collectivised means of production to a minimally acceptable level. Without socialist democracy how can one know the true needs and priorities of consumers? And how can one know the true productive capacity of

enterprises and check that it is efficiently used? It is impossible to plan effectively as long as bureaucrats have a material interest in hiding some of their firms' resources. The whole of economic life becomes opaque.

In this sense China's main dilemma, as a country that is far less developed than the Soviet-bloc countries and Yugoslavia and where the proletariat is far less developed and skilled, is that socialist democracy is much more difficult to realise. But by the same token socialist democracy is all the more necessary. It is precisely because China lacks many of the safety valves of other countries that the absence of this democracy imposes such serious imbalances on the economy and such intolerable sacrifices on producers. Luckily, one can expect growing numbers of workers, young rebels and critical Communists in People's China to draw the necessary conclusions. A sign of the times is that China's **unofficial** democratic movement has made 'The Fifth Modernisation' its watchword: democracy, upon which depends the realisation of the other four modernisations, the scientific and the economic.

15 January 1981

Post Scriptum

Throughout 1981 the general trend of the CCP's economic policies continued to centre on readjustment, retrenchment and austerity. Economic growth seems to have fallen to 2 per cent; total industrial output rose by only 0.8 per cent in the first semester, as against the 2.7 per cent planned.

Inflation remained rampant, its main source being the cumulative budget deficits of 1979, 1980 and 1981. But the budget deficit was cut from 20.6 billion *yuan* in 1979 to 13 billion in 1980 and an estimated 3 billion in 1981. These budget deficits in their turn originate from an explosion of capital construction outlays, triggered off by the Four Modernisations. These reached 48 billion *yuan* in 1978, 51.5 billion in 1979 and 53.9 billion in 1980. It is true that central budget capital expenditures were cut in 1980 and in the first half of 1981 were even cut by 22 per cent compared with the first semester of 1980. But these cuts were more than offset by a huge rise in local investment of 25 per cent in 1979, and a significant new rise above target in 1980. The target for 1981 is to reduce capital construction outlays by a full 45 per cent, from 54 to 30 billion *yuan* (*Far Eastern Economic Review*, 25 September 1981).

Currency in circulation rose 26.3 per cent in 1979, and again 29.2 per cent in 1980. In 1981 inflation fell markedly and part of the excess liquidity was mopped up the sale of government bonds to enterprises. But industrial profits, which provide a large part of the state budget's revenues, were down 12 per cent on 1980 in the first half of 1981 (*Financial Times*, 30 September 1981). In spite of retrenchment, negotiated with Japan for large loans and 'joint ventures' were apparently restarted.

Foreign trade continues to grow. Exports grew by **28.7** per cent in **1980** and by **15** per cent in the first half of **1981** (FEER, **25** September **1981**). China's main exports continued to go to Hong Kong, Japan and the EEC, while its main imports came from Japan, the USA (especially grain) and the EEC. China is now a member of the International Monetary Fund and has extensively used Special Drawing Rights to cover **conjunctural** deficits in her balance of payments.

A main development in **1981** was the loosening of the 'right to work' rule. According to the *International Herald Tribune* of **4** September **1981**,

For several months China's leaders have been experimenting quietly in dozens of factories with notions that workers who do not work should be subjected to pay cuts and, if that fails, be dismissed. These ideas were put forward last week in a front-page article in the *People's Daily*, which leaders often use to signal policy changes. The newspaper reported that since April (1981) 30 factories in Shanghai have been experimenting with forms of 'labour discipline' in which unproductive workers receive a range of warnings, demerits and pay cuts eventually leading to dismissal.

As a result of retrenchment, thousands of factories have been idled or shut down, and urban unemployment is currently estimated at a minimum of ten million. (Officially unemployment is said to have grown from five million in **1980** to seven million at the end of **1981**.) So the threat of dismissal now hangs over the heads of **100** million wage-earners in China.

But the Chinese leaders are acting cautiously here, fearful of 'Polish-type' developments. In scattered but recurrent slowdowns, demonstrations and strikes, industrial workers are protesting against low pay, poor working conditions and lay-offs. Dissident journals report continuing efforts to form independent trade unions.

The Chinese bureaucracy's flirtation with Yugoslav-type self-management has been quietly abandoned and replaced by purely advisory 'workers' congresses', which now function in **120,000** of China's **400,000** industrial enterprises. But only a quarter of these congresses are said to function in a satisfactory way:

The trade unions, now under Party instructions to represent the workers more effectively, complain that they are frequently frustrated by government officials who side with enterprise managers. 'The production-at-any-cost-mentality still blinds many leading cadres to the real dangers in worker resentment', a union leader told a Peking conference. . . Chinese officials appear to have dealt successfully with most of last year's protests through conciliation. These involved **coal**-miners, tool-and-die makers and chemical industry workers who have demanded unions independent of the Party and the government. Young steelworkers in **Taiyuan** west of Peking have demonstrated for better living conditions. Other actions involved a two-day strike at the large Anshan steelworks in northeast China. . . , another two-day strike at a Shanghai glass works and half a dozen reported protests over lay-offs when old plants were shut. The latest reported

strike was by workers of an electrical transformer plant in the southwestern Chinese city of Kunming to protest the plant management's allocation of new apartments to the director, Party secretary, trade union leader and their friends, instead of the workers for whom they were built (*International Herald Tribune*, 30 October 1981.)

For this same reason the Deng faction seems to have changed its position on Poland, giving *de facto* support to Jaruzelski's counter-revolutionary coup.

The other main economic development concerns the broadening of the private sector in agriculture, the service sector and retail trade. This broadening is linked to the problem of unemployment. A joint decision of the Party's Central Committee and the State Council on 23 November 1981 explains that increases in employment are more likely to be found in the retail trade, and over the past three years are said in Beijing, Shanghai and Guangzhou to have come from private businesses and urban cooperatives.

The decision authorises private businessmen to hire up to seven wage-earners rather than the two previously permitted. The Dazhalan Multi-Service Centre in Beijing is said to employ 223 workers, to have a gross turnover of \$780,000 a month and to make thirteen per cent profits (*US News and World Report*, 23 March 1981). Some private businessmen make profits as high as ten times the average industrial worker's wage.

In agriculture, private land has been extended from seven to fifteen per cent of the cultivated surface (*Le Monde*, 17 November 1981). In 40 per cent of China's villages the Commune work-points system has been abolished and replaced by a family contract system, enabling the peasants to sell their surplus on the country's 40,000 free markets (*People's Daily*, 5 November 1981 and *Time*, 16 November 1981). Here again, the main pressure is hidden rural unemployment, estimated at 50 per cent of the 300 million agricultural producers.

Some rich farmers could make as much as \$6000 a year (nearly 10,000 yuan); in Shandong Province, 2000 families were able to buy private tractors (*Newsweek*, 19 October 1981). This now poses a further problem: the need for a flow of industrial consumer goods into the countryside, without which material incentives for the peasants will not work, even in the medium term.

At the end of 1981, prime minister Zhao Ziyang predicted four per cent economic growth in 1982; while the finance minister spoke of a budget deficit of around three billion yuan for the same year. The goal is to quadruple the country's gross output by 1999 (*Neue Zürcher Zeitung*, 2 December 1981).

All these developments clearly explain why the Deng faction put a rapid damper on the modest political 'liberalisation' of the previous years, and has again embarked on a course of sharpening repression.

10 January 1982

NOTES

Sixty per cent of school-age children cannot attend school; twenty per cent of primary school graduates cannot enter lower middle school; half of those who graduate from lower middle school cannot enter upper middle school; and only five per cent of those qualified to do so can enter university (*People's Daily*, 11 August 1979).

2. Jacques Guillelmaz, *Le Parti Communiste Chinois au Pouvoir*, Payot, 1972, p. 198.
3. In the famous Dazhai model brigade the immense earthworks undertaken by thousands of peasants between 1970 and 1974 only extended the area of land sown with wheat by 3 hectares and the average yield by one per cent (Pierre Péan, *Après Mao: Les Managers*, Fayolle, 1977, p. 113). It has (almost) been forgotten that one of the first charges against the 'Gang of Four' was that they had 'sabotaged Dazhai'. Hua Guofeng (following Mao) was a great propagandist of the Dazhai model, whose achievements are now said to have been falsified. We leave aside the question of the—very real—ecological risks of applying massive amounts of chemical fertilisers to irrigated areas. Around 1975–76, the average monthly industrial wage was about 30 yuan (36 yuan in the Guangzhou Paperworks). The most skilled workers earn 120 yuan, the highest-paid technicians and engineers 200 yuan, a few economic executives and political leaders 300 yuan (to which one should add important benefits in kind) and talented artists 400 yuan (Péan, *op. cit.*, p. 53). These figures had stayed unchanged for ten years. Importing factories and petro-chemical technology was aimed at rapidly developing the production of chemical fertiliser, which was to rise from 8.7 million tons in 1965 to 28 million in 1975 and 53 million in 1979 (Thierry Parault, *Les Politiques Economiques Chinoises*, Notes et Etudes Documentaires, La Documentation Française, 1980, pp. 100 and 173). At the same time the irrigated surface grew from 16 million hectares in 1949 to 35 million hectares in 1957 and 45 million in 1977. The Western press gave wide coverage to the Sichuan 'pilot scheme'. (e.g. *Far Eastern Economic Review* (hereafter *FEER*) 21 November 1980). *Christian Science Monitor* of 13 October 1980 reports how the Sichuan press discussed the case of the 'rich peasant' Luo who, having saved 1000 yuan and got a bank loan of 300 yuan, bought a two-and-a-half ton truck which he then rented to his commune for 400 yuan a month.
7. *FEER*, 10 October 1980.
8. *FEER*, 26 September 1980.
9. See especially *Neue Zürcher Zeitung*, 7 November 1980; *Financial Times* (hereafter *FT*), 4 December 1980; and *Le Monde*, 10 January 1981.
10. *FEER*, 12 September 1980.
11. Parault, pp. 84 and 86.
12. *Ibid.*, p. 112.
13. *Christian Science Monitor*, 21 April 1980; and *FT*, 17 September 1980.
14. *FEER*, 6 June and 26 September 1980; and *Businessweek*, 19 January 1981.
15. *Le Monde*, 17 December 1980.
16. *The Times*, 29 September 1980.
17. *FT*, 10 October 1980; *Businessweek*, 19 January 1981.
18. *FT*, 26 November 1980.
19. Those sent abroad are mainly building workers, 1200 of whom were recruited by two Japanese companies working in Iraq (*Business Week*, 28 January 1980). According to *Newsweek*, 14 September 1980, the Chinese government reportedly committed itself to 40 contracts to provide labour in exchange for \$100

million in wages.

20. Pairault, p. 75, makes an interesting historical review of the origins of the concept of the Four Modernisations. It was first used by Liu Shaoqi at the Eighth Congress (1956), and then by Mao in his 1957 speech on contradictions (when culture took the place of technology). One has the impression of an alternation of feverish spurts and readjustments: the Great Leap Forward, then the readjustment of 1962-65; the Cultural Revolution, then the readjustment of 1971-74; the Four Modernisations (with overinvestment and overheating), then the readjustment of 1979-81 (or even 1979-82).
21. *Libération*, 14 November 1980, reports the bomb attack in detail.
22. Two books describe the poverty, bitterness, revolt and disarray of Chinese youth: *Avoir vingt ans en Chine à la campagne*, Le Seuil, 1978; and *Le printemps de Pékin*, Archives Gallimard, 1980.
23. *Keesing's Contemporary Archives*, p. 30, 491.
24. *Ibid.*, p. 30 941-2.
25. *New China News Agency*, 2 November 1979.
26. *Jingji yanjiu*, No. 12, 1979, quoted in Pairault, p. 97; *Neue Zürcher Zeitung*, 5 December 1980.
27. *New York Times*, 1 January 1981.
28. *New York Times Magazine*, 28 December 1980.
29. Between 1977 and 1979 cereal production only rose by an average of 8.5 per cent a year, while oil-seed rose by 16.5 per cent, sugar-cane by 10.5 per cent and sugar-beet by 12.5 per cent. Grain production is said to have stagnated or even fallen in 1980.
30. FT, 1 October 1980.
31. *The Guardian*, 9 October 1980.
32. AFP (2 January 1981) reports that the Chinese press denounced the black market dealing on the train between Guangzhou and Beijing (Guangzhou being the transit-point for Hong Kong). Fifty per cent of travellers are said to board the train for the sole purpose of illegal trading. Between January and September 1980, 410 cases of precious coins, gold and silver jewellery and gold bars were reportedly seized by police.
33. Pairault, fn 11.
34. FEER, 21 November 1980.
35. Pairault, pp. 13-16.
36. *The New York Times*, 1 January 1981.

Translated by John Barzman and Gregor Benton.