

China Policy Study Group BROADSHEET

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REVOLUTION CONTINUES

A revolution may have to be carried on for generations before it achieves its aims. Did the Cultural Revolution achieve all its aims? The benefits for China were enormous but it could not completely eliminate reactionary habits and ways of thought which had been deeply rooted in the old society. Now, in the schools, there is a new attack on them, led by the students themselves and continuing the revolutionary tradition of the May 4th Movement.

Young people's learning is not confined to school; society educates them during the whole of their youth, when their demands and questioning are most insistent. A capitalist ruling class is terrified by their behaviour, represses them and creates 'delinquents'. In China those who rebel, who 'go against the tide', are held up as examples and acknowledged as speaking in the name of the revolution.

Chinese Communists are quick to seize on examples of initiative and to publicise them. The *People's Daily* recently published a letter from a 12-year-old schoolgirl, criticising the concept of the 'absolute authority' of a teacher and, later, replying to her own critics. She believes that the influence of the revisionist line in education has not yet been eradicated. Yet while criticising, she says, 'we are conscientious in observing discipline and doing physical labour. We have improved our study and those who lagged behind have caught up.' After publication of the letter teacher-pupil unity increased.

The same newspaper, some weeks ago, published details of a Nanking University student who had been able to enter the university 'by the back door' because his father was a veteran of the Long March. The student decided to leave the University and go back to his army unit. 'We children of revolutionary cadres', he said, 'must . . . strive to remould our non-proletarian ideology and be worthy successors to the proletarian revolutionary cause.'

One of China's main problems is to train successors to those who fought their way through the early years. Examples like these show that progress is being made on the initiative of young people themselves, not following directives from above but acting in accordance with principles which socialist society has taught them.

CHINESE ECONOMIC PLANNING

by Roland Berger

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Economic policy in China is designed to serve the general political line. In their talks with me in April 1973 members of the Budget Bureau of the Ministry of Finance made it unmistakably clear that financial considerations are subordinate to economic which, in turn, are determined by politics.

'China's financial policy,' they said, 'is framed to help consolidate the dictatorship of the proletariat. Finance must play an active role in bringing about the socialist transformation of the economy by mobilising funds and correctly handling the balance between consumption and accumulation.'

In the Chinese view the economy determines financial policies, although whether these policies are good or bad can influence the economy. Increases in financial resources must be found through expanding production of industry and agriculture and mainly by 'reliance on one's own efforts'.

Budgetary policy, therefore, rests firmly on the actual output of agriculture and industry. Planned expenditure must be balanced in relation to national production which determines budget income. In fact, the plan provides for a marginal surplus of income over expenditure, providing some leeway (yü ti) for contingencies. If a shortfall in income above this margin should arise from unforeseen circumstances such as serious adverse climatic conditions the solution would be sought in a special appeal to the people to practise economy and increase output. The Budget Bureau in China insist that expenditure is never met by printing paper money.

There is clearly no place in this scheme of things for the Keynesian remedy of gradual and eventually cumulative inflation or devices such as bank rate manipulations, stop-and-go techniques, price controls (which at best are only temporarily

effective) and other nostrums to which the capitalist world resorts, albeit without much confidence that they will succeed in halting inflation for any length of time. It seems, however, that there were those in China who advocated such matters in dealing with the economic problems of the 'three difficult years'. Liu Shao-chi, we are told, would have had recourse to deficit budgeting, allowing the currency to 'find its level', which would have resulted in a huge increase of money in circulation and the probability of serious inflation.

China, whilst giving aid, does not rely on foreign loans for investment funds. Loans received from the Soviet Union to help reconstruct the economy after Liberation and to back China's aid to the Democratic People's Republic of Korea to resist American attacks, represented no more than 2 per cent of state revenue for the years 1950 to 1959. These loans, of the order of 1,406 million roubles, were all repaid at the beginning of 1965, one year ahead of time. Taking the view that she has an obligation to assist other developing countries, China does not brag about her foreign aid. Firm figures are, therefore, not available. However, a Director of the Schweizerische Bankgesellschaft, Zürich, recently expressed the opinion that the total is little short of \$2 billion. It is almost certainly true that China has given more in terms of aid (free or at very low rates of interest) than it ever borrowed in foreign loans.

From 1950 to 1958 six series of national bonds were issued to utilise idle money, chiefly in the hands of the national bourgeoisie, to expand production. These totalled in value 3,840 million yuan. With the strengthening of state finance they were all paid off with 980 million yuan interest. Today it may be said that China is the only country in the world which is free from both internal and external debts.

In her foreign trade transactions China similarly aims to maintain an overall balance, with some excess of exports over imports. During the period of Soviet aid (1951 to 1955) China's imports exceeded her exports. In the seventeen

succeeding years (1956 to 1972) imports have exceeded exports in only three years (1960, 1967, and 1970) and then by relatively small amounts.

Loans play no part in financing China's foreign trade. When high-cost items (e.g. aeroplanes) and complete plants are being purchased she asks no more than normal commercial credits (three years in the case of aircraft; five in the case of complete factories). This contrasts with Soviet policy. *The International Currency Review* (July-August, 1973) stated that by 1980 debt service is likely to absorb one half of the U.S.S.R.'s export earnings.

According to U.S. sources China's foreign exchange and gold reserves increased from \$415 million in 1960 to \$720 million in 1972 (\$560 million gold—from purchases and domestic production—and \$160 million in foreign exchange).

However, the Swiss banker already quoted considers these estimates altogether too low. Taking account of foreign trade surpluses over a longer period (1950 to 1972) and with a 'conservative' estimate of \$500 million from remittances from overseas Chinese and other invisibles, he regards a currency reserve figure of \$4 billion as 'completely defensible'.

There is no personal income tax in China. State-owned industry provides revenue in two forms: profit and tax. Commerce pays a tax based on turnover and the communes are responsible for the agricultural tax. With the expansion over the years of state-owned industry, the proportion of revenue from this sector has progressively increased.

In 1950 state industry and the co-operatives accounted for 34.3 per cent of state revenue, capitalist industry and commerce 32.9 per cent, and individual peasants 29.6 per cent. By 1960, the last year for which we have a sectional breakdown, the percentage of revenue from state-owned industry had risen to 64.7 per cent; industrial and commercial taxes 28.9 per cent, and payments from the people's communes in the form of agricultural tax and taxes on rural industry and commerce 5.9 per cent. The Budget Bureau state that today rather more than 90 per cent of revenue is derived from the state sector.

Industrial enterprises pay tax on ex-factory prices, commercial departments pay a 'business tax'—usually about 3 per cent on the volume of business, and services, such as hotels and laundries, pay a tax of from 3 to 15 per cent on the basis of income.

CAPITAL CONSTRUCTION

A large part of the Budget (60 per cent in 1972) is devoted to supporting production and capital construction. Investment funds for major projects of capital construction, such as the Wuhan Iron and Steel Complex, are entirely provided by the State. Medium construction works may be funded by both the State and Province in agreed proportions. A significant part of China's capital accumulation, however, is not pecuniarily quantifiable. Edgar Snow in 1971 reported an interview with Chou En-lai:

The premier put agricultural product value for 1970 at about 25 per cent of total combined output value of industry, transportation and agriculture. Calculated on that basis, China's industrial-transportation-agricultural output value in 1970 was around 120 billion American dollars. There is, however, no reliable index for converting 'output value' in China in terms of gross national produce systems used in the West. 'Output value' omits or minimises important 'service values' such as rents, privately owned rural homes—now rising by the millions, built with mutual labour—as well as major and small water conservancy projects constructed by army and volunteer labour. Or consider China's nationwide urban and rural air-raid shelter system, built largely by unpaid neighbourhood mutual labour teams. It would elsewhere cost billions of dollars. Finally, how is one to fit into the GNP formula the value of some 30 million acres of marginal land added during the past ten years to the cultivable area by

peasant labour—with unbelievable toil—at a cost of little more than peasant food consumption?

(Article in *Epoca*).

Some measure of the effect of output on investment policy may be gauged from figures given to me by the Planning Commission of Hupeh Province (population 38 million) in May 1972, where the value of industrial output of 7,500 million yuan in 1971 had been increased by 1,000 million yuan in 1972.

SUPPORT FOR RURAL AREAS

Perhaps in no area of the economy have China's achievements been so strikingly successful as in the handling of agricultural collectivisation and, with special emphasis since the Cultural Revolution, in raising the standard of living in the countryside to bring economic and social conditions in the rural areas closer to those of the towns.

Over the years the weight of the agricultural tax on the rural economy has been consistently reduced. The tax, which is levied on output of basic grains, oil-bearing seeds, cotton and tobacco, represented 13.2 per cent of production of these items in 1952, was reduced by 30 per cent in 1962, and today averages for the country as a whole about 6 per cent. If, owing to adverse weather or other conditions, production falls, a proportion of the whole of the tax is remitted. As we have seen, the percentage of budget income represented by the agricultural tax has been falling from year to year.

Each commune receives a quota under the economic plan of basic commodities which the State will purchase at fixed prices. Above the quota, surpluses of grains can be sold to the State at prices 20 per cent to 30 per cent above this fixed price. As the quotas remain unchanged for a period of five years (the last quotas were fixed in 1971), any increase in production can bring in substantial additional income to the production brigades and teams.

In determining the scale of the tax, grain is taken as the standard and other items are assessed in grain equivalents. For example, in 1972 100 catties of tobacco was taken as equivalent to 50 catties of grain. A tax, again calculated on the basis of grain equivalents, is paid on items such as fish, silk, vegetables and fruit, which are sold to the State at fixed prices. The agricultural tax is collected by the county, which retains 5 per cent for its own use and passes the rest to the State.

Of major benefit to the peasant population has been a consistent policy of closing the gap between the prices paid to the communes for agricultural supplies and those charged for industrial products needed in the rural areas. The latest cut in prices of industrial goods took effect in two stages in January and July 1971. Prices of tractors and diesel engines, petrol and lubricating oil were reduced by 20 per cent; fertilizers and insecticides, plastic sheeting and piping by 16 per cent. At the same time prices paid to the communes for sugar cane, oil-bearing seeds, some fibre products and various side-line items were raised. The price paid to the growers for cotton was raised in 1955 and again in 1964. Together, these amounted to a 25 per cent rise. The purchase price of grains has been raised several times since 1949 without increasing the sale price to the consumer and all seasonal differentials in grain prices have been eliminated.

Professor Joan Robinson has remarked that:

When the purchase price of grain was raised to encourage production during the bad years, the retail selling price was kept unchanged. This avoided the vicious cycle of inflation which is inevitable when food prices rise, so that urban wages have to be raised, which raises money demand for food and so on round.

(*Economic Management—China 1972*).

A Chinese report in September 1972 stated that the closing of the 'price scissors' had benefited the peasants, either by increasing their income or saving expenditure by some 10,000

million yuan in the period since 1966. At the Hsin Chou County (Hupeh Province) which I visited in May 1972 I was informed that this one county, which had paid for industrial goods before 1971 cuts were announced, had received back no less than 200,000 yuan.

The State, in fact, loses on its purchases of a number of items from the communes. For example, rapeseed, which is purchased at 81 cents a catty, is sold at 78 cents, the State bearing the cost of handling and other overheads in addition to the 3 cent loss per catty. Rice bought at 16 cents a catty is sold at 14. With transportation costs the State loses 2.8 cents on every catty.

The People's Bank offers facilities to the communes to borrow at low rates of interest. For the purchase of farm machinery interest is charged at 0.18 per cent a month (2.16 per cent per annum) and for farm production (seeds, fertilizers, and so forth) at 0.36 per cent a month (4.32 per cent per annum). As these loans are mostly for seasonal requirements it is customary in China to quote interest rates on a monthly basis.

These price adjustments reflect one aspect of price policy which the Chinese describe as 'exchange on the basis of equal value', although in some cases industrial goods are actually sold to the communes at below cost. Members of the Budget Bureau gave me examples of how these adjustments in price relations had affected the peasants' sales and purchases. In the early period after Liberation one catty of salt was exchanged for several dozen catties of grain. Today, one catty of salt could be exchanged for one catty of grain. One tael of gasoline twenty years ago cost the equivalent of three eggs—today the ratio is two taels for one egg. One injection of penicillin, which cost 50 catties of flour, is now the equivalent of one catty.

The cumulative effect of the various measures to benefit the

rural areas have obviously played a major part in the rapid development of Chinese agriculture. They have also greatly augmented the communes' accumulation as well as the income of individual peasants. According to the Budget Bureau, commune savings in 1971 were double those of 1965 and the private savings of commune members increased by 30 per cent in the same period.

(to be concluded).

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A USEFUL BOOKLET

THE NATIONAL LEADERSHIP IN CHINA: 1973. Tricontinental Liberation Institute, 21 Goldhawk Road, London, W.12. Price 45p (by post in U.K.).

The main part of this duplicated booklet consists of a list of the members and alternate members of the Central Committee of the Chinese Communist Party, with such information about their class origin and careers as the author has been able to find and compress into note form. About some individuals there is no information at all, about others there is a good deal, but none of it is irrelevant gossip. This publication is on an altogether different level from the speculations of most professional Chinawatchers. It does not speculate, and there is nothing irrelevant.

Just as valuable are the brief *Introduction* and the article *Leadership for a Continuing Revolution*. The latter, pertinent and perceptive, sets out the principles which have formed these leaders and brought them to power. It cannot fail to increase understanding of the Chinese Revolution.

TWO WORLDS

Soviet Criticisms of China's 10th Party Congress

When the Sino-Soviet controversy came to the surface in the early '60s the Soviet Union was able to draw on a long tradition of loyalty, reinforced by the respect in which its military and economic power were held by left and right alike. Now the debate is raging again but the situation is different. The Soviet Union faces the charge of social-imperialism, using economic and military strength to extend control over those deceived by its professions of socialism. So many have had their eyes opened to this danger, however, that Moscow can no longer count on support on ideological grounds.

Fewer people may now be changing their allegiance under the impact of the arguments as such. Essentially it is a question of which side they wish to be on, whether it is the world of Nixon or of Brezhnev, where classes, races and peoples are oppressed, or the world that offers a new way of living, the contours of which are only now beginning to emerge. Many developing countries are becoming convinced that the latter is the side which offers them the best hope.

Because of the irreconcilable differences between the two sides, the capitalist and the socialist, it is natural that the Tenth Congress of the Communist Party of China (reviewed in *BROADSHEET*, October '73) should have been treated with a good deal of derision in Soviet commentaries. One of the more systematic was an article in *Pravda* (16th October '73), reprinted in the December issue of *International Affairs* under the title *On the Tenth Congress of the Communist Party of China*.

Putting aside the thick outer wrapping of vociferous assertion, with its stiff lacing of self-righteousness, careful analysis shows it to consist of relatively few theses, all of them familiar from previous appearances. Basically what has happened, the *Pravda* article says, is that China's leaders have dropped their revolutionary pose and 'come out in every respect as a force hostile to the socialist world's policy and interests and opposed to the

positive developments taking place in the world'.

Behind this is the assumption implicit in all Soviet polemics, that the 'socialist world' is centred in Moscow and that to be a socialist one must dance to a Russian tune. What is meant by 'the positive developments taking place in the world'? One suspects they include the partial Test-Ban Treaty, U.S.-Soviet talks on disarmament, the armistice in the Middle East and the 'Asian Collective Security' scheme which the Soviet Union has been hawking again. China is certainly opposed to these and has made her opinion plain. All agreements on armaments so far have been designed to allow the superpowers to increase their weaponry and maintain their nuclear monopoly; the armistice in the Middle East was imposed by the superpowers and is against the interests of the Arab countries; the Asian Collective Security scheme is an attempt to mobilise other powers to help the Soviet Union against China. Very few Third World countries have shown enthusiasm for these 'positive developments'.

The Tenth Congress of the C.P.C. failed to come up to standard, the Soviet critics say, when compared with Soviet and satellite congresses, because it failed to adopt an economic or social programme and concentrated on principles and slogans instead. These were all directed, says *Pravda*, against those accused of 'taking the capitalist road', but they are just a cover for attacks on old Party cadres. Opposition to veterans like Liu Shao-chi and Lin Piao is because they refused to oppose 'the socialist world's policy and interests'. This is an interesting admission that Liu and Lin were for coming into line with the Soviet Party.

Party tasks in the Soviet Union—and indeed all policies presented to the public—are short-term and tactical. Lenin's far-reaching vision of the unleashing of mankind's powers has been replaced by a peering into the future from behind closed doors for opportunities of extending Soviet state power. The Party as a whole is not charged with questions of this order;

they are for the governmental elite. The Party is issued with the targets of the current Plan and has the duty of fitting everyone's thinking into that framework. Chinese Party Congresses certainly have abandoned that model; they are concerned with political line, with style of work, with encouragement of initiative. As Premier Chou En-lai said in his Report to the Tenth Congress:

Chairman Mao teaches us that 'the correctness or incorrectness of the ideological and political line decides everything'. If one's line is incorrect, one's downfall is inevitable, even with the control of the central, local and army leadership. If one's line is correct, even if one has not a single soldier at first, there will be soldiers, and even if there is no political power, political power will be gained.

Politics decide everything. When the politics are correct and understood, the day-to-day tasks are accomplished. Chinese congresses receive no blueprint and so give no approving rubber stamp; instead they encourage the utmost personal commitment and give the utmost personal scope. Initiative is developed partly by constant emphasis on Marxist-Leninist education and partly by quickness to recognise and adapt exemplary instances of translating theory into practice.

Preparation at the base

Furthermore, every Chinese Congress is preceded by a considerable period of preparation. By popular discussions under local Party leadership, by conferences at provincial, county and commune level, by meetings of women, of national minorities, at which issues are thoroughly thrashed out at whatever length is necessary, delegates to the Congress are made fully aware of opinions and problems, not only concerning local matters but all questions facing China and the revolution. These discussions are never perfunctory; their purpose is to acquaint the Party with the whole spectrum of opinions of the masses, so that they can be reflected in its work. This is the mass line in operation and it is much more than a formality. Only through its full operation can satisfactory policies be determined for the future.

The *Pravda* commentary denounces the Chinese leadership for 'hegemonism', on the ground that it 'intends to continue the line of carrying on a political struggle against the world communist movement'. It also says that by encouraging countries of the Third World to make themselves independent of the two superpowers the Tenth Congress 'reveals Peking's old claim to the leadership of the Third World'. The Kremlin cannot believe that the aims of others are not like its own. It sees Moscow as the centre of 'the world communist movement', so the Chinese *must* want to substitute Peking. To oppose Moscow can, in their view, have no other purpose than 'hegemonism'. But Peking has made no claim, old or new, to 'the leadership of the Third World'. Chinese spokesmen have said repeatedly that China is part of the Third World and will never be a superpower, but that all countries must be equal and have an equal voice in world affairs and be allowed to decide their actions for themselves.

The Soviet critics consider the Chinese Party to be 'coalescing with imperialist reaction', and voices in the Third World which assert this are speaking for the Third World. This point is made in the context of the recent conference of non-aligned countries in Algiers (see November BROADSHEET). The voice raised at Algiers in support of the Soviet thesis was that of Fidel Castro. The Soviet leaders may imagine that they have conferred leadership of the Third World on Cuba and Castro but the Algiers conference gave them no support. Castro's speech was seen as a debtor's tribute and did not silence the criticism of Soviet policies. The hectoring tone of Brezhnev's letter to President Boumediene, just before the conference, made the criticism more pointed.

The Soviet leaders *must* oppose China because of the threat she poses to them. Not a military threat, as they very well know, but a political one, which is more serious. They cannot hide forever from the Soviet people the news of China's successes in socialist construction and of the policies which made them possible.

The Tenth Congress marked a great step forward for the Chinese Party and is therefore of importance for the whole world, though Soviet critics deny it any positive features. They hoped for a change of line and were disappointed. The Congress made a realistic appraisal of the world situation today, which is one of extreme disorder, not to be conjured away by calling it detente. This disorder is a sign that history is on the move, world contradictions are producing world upheavals. They are welcomed by revolutionaries and they frighten reactionaries.

The Congress called on the Chinese people to 'be prepared against war, be prepared against natural disasters, and do everything for the people'. Safety lies in being prepared; if there is no preparation against an attack from the Soviet Union that attack is more likely; preparation makes it less likely. Natural disasters of one kind or another are certain; readiness to meet them will minimise their effects. To do everything for the people is to develop to the full both fraternal cooperation and independence. Independence and initiative were stressed in Premier Chou's quotation from Mao Tse-tung: 'Going against the tide is a Marxist-Leninist principle.' Communists must not fear isolation but must resolutely oppose all wrong tendencies.

To go against the tide with confidence requires education in Marxism-Leninism, so particular stress was laid on the need to study classical Marxist works conscientiously, to master the basic theories and learn from the struggles of the past.

Finally, the Chinese Communist Party, having 'rid itself of the stale and taken in the fresh', and with a membership of twenty-eight million, elected at the Congress a new Central Committee composed of cadres, workers, peasants and armymen in a combination of veterans and new forces such as has not been seen before. The new people are lively, enthusiastic and already tested in struggle; the old members have experience which has taught them to listen receptively to the voice of the young and welcome their initiatives.

Forward, not back

Yes, China has moved right off the 'socialist road' as laid down by the Soviet Party. Those who call this irresponsible adventurism want to go back to the pattern prevailing before the Great Leap Forward and the People's Communes. There have been those in the Chinese Party who have wanted to go back to the previous, Soviet-influenced model, and in some respects even to a pre-liberation situation in the countryside. They wanted to suppress the urge to thrust ahead and innovate; they wanted to come to terms not with how things could be but with how they had been. This support for the old leads back, in the last analysis, to a revival of the 'order' advocated by disciples of Confucius. The first aim of today's Confucians is to return to the traditional ways of the Soviet system and get back within the Soviet embrace. No wonder the Tenth Congress disappointed them.

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