

CHINA KNOWLEDGE SERIES

# CHINA'S SOCIALIST ECONOMY

*XUE MUQIAO*



REVISED EDITION

FOREIGN LANGUAGES PRESS · BEIJING

# CHINA'S SOCIALIST ECONOMY

(Revised Edition)

*XUE MUQIAO*

This is an important work on China's socialist economy by one of China's leading economists. Combining theory with practice, he discusses the historical experiences and lessons in more than three decades of China's socialist revolution and construction and examines a series of its major economic problems that remain unsolved or have been solved only partly. Subjects dealt with include: the system of ownership under socialism, the distribution system of "to each according to his work" and the reform of the wage system, commodity and money, the function of the law of value and price policies, the planning of the national economy, the reform of the economic management system, China's road to modernization, class struggle and contradictions among the people. The author also devotes special attention to the rational distribution of the labour force and the employment problem, and to the relationship between national construction and the people's livelihood.

The first edition of this volume appeared in 1979. In 1983, in the light of the new situation in China's socialist economic construction and the in-depth development of economic restructuring, the author made a substantial revision of his book, which is a must for those interested in China's socialist economy.



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ECONOMY

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## *PREFACE TO THE REVISED EDITION*

The present edition is a revision of the first edition published four years ago. The revision has been made necessary by the fast political and economic developments in China in the last four years, which have given rise to new problems, views and policies that have made many of the arguments presented in the first edition out of date.

As we all know, the recent changes in China have taken place under the policy set forth by the Third Plenary Session of the Eleventh Party Central Committee in December 1978, which called for emancipating our minds, seeking truth from facts, and doing everything in the light of China's realities. Things have been set right in all spheres of national life under the guidance of this policy.

As far as this book is concerned, its basic orientation remains correct because the text of the first edition was finalized in the spirit of the Third Plenary Session. I intended to bring it up to date twice, in the summers of 1980 and 1981, but I dropped the idea because things were still developing.

Then the latest developments in Party policy were summarized in two essential documents, i.e., Hu Yaobang's report to the Twelfth Party Congress, "Create a New Situation in All Fields of Socialist Modernization", and Zhao Ziyang's "Report on the Sixth Five-Year Plan" to the Fifth Session of the Fifth National People's Congress. So I decided to go ahead with a revision of this book, and finished the job in a month.

As far as I can see, the major shortcomings of the first edition have been eliminated from the present version, and the views expressed in the rest of the book are essentially correct. But there are bound to be oversights because of the limited time available for revision. And there must be other shortcomings, especially when one considers the new problems that have cropped up in our economy.

China's economy has been guided through a most difficult period and shifted to a course of steady and healthy development. But there



are still many hard nuts to crack, and it takes time to effect a basic turn for the better in our finances and our economy as a whole. Initial results have been achieved in readjusting the economy, but these are unstable and remain to be consolidated and placed on a sound basis. The successes in the structural reform of our economy are outstanding, particularly in agriculture, but we still have to work out a comprehensive and circumspect plan and solve many problems, both theoretical and practical.

Compared with the first edition, the present one is a bit larger and contains some repetitions. This shortcoming remains because of the press deadline.

Thanks are due to Su Xing, Wu Kaitai and He Jianzhang, who assisted me in the revision.

Xue Muqiao

March 1983

## INTRODUCTION

I thought of writing a book like this more than twenty years ago.

In 1955, the Propaganda Department of the Chinese Communist Party's Central Committee assigned me the job of co-authoring with Yu Guangyuan and Sun Yefang a textbook on political economy. As a kind of spadework, I wrote in collaboration with Su Xing, Lin Zili and others *The Socialist Transformation of the National Economy in China*, a book published on the tenth anniversary of the People's Republic in 1959.\* After that I found little time for research on key questions of socialist economic construction, and what I did outside my regular duties before 1966, the first year of the "Cultural Revolution" (1966-1976), found expression in about two dozen articles and a dozen speeches.

In 1978 the People's Publishing House in Beijing offered to publish a collection of articles I wrote during the period from the founding of New China to the eve of the "Cultural Revolution". As requested, I selected over a dozen major articles and compiled them in a book, published in April 1979 under the title *Theoretical Questions of the Socialist Economy*. It is by no means a comprehensive work and, judged by today's standards, it is both ideologically weak and faulty in some respects. Nevertheless, it does touch on the important aspects of the socialist economy and, furthermore, reflects the level of my understanding at the time of writing. This may be regarded as my first venture into the subject.

During the "Cultural Revolution", I spent all available time reading through the *Selected Works of Marx and Engels*, the *Selected Works of Lenin* and Marx's *Capital* along with a further study of the *Selected Works of Mao Zedong*. In 1968, I tried my hand at a book entitled *Questions of the Socialist Economy* and rewrote it six times

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\* An English translation was published by the Foreign Languages Press, Beijing, in 1960. — *Trans.*

over the next eight years. The original plan was to produce a textbook called *Political Economy Concerning Socialism*. While revising the text, however, I found the plan increasingly difficult to carry out. First of all, I was not strong enough in a dialectical approach to questions of the socialist economy. In addition, quite a few "forbidden areas" in theoretical study had been carved out during the "Cultural Revolution". Consequently, the chapters in the textbook showed little improvement over the articles I wrote prior to the "Cultural Revolution". I later realized that only after the downfall of the Gang of Four in October 1976 and especially after the Third Plenary Session of the Party's Eleventh Central Committee in December 1978 could I attempt an effective rewrite. The keynote of the Third Plenary Session was a call for people to think for themselves on the principle, "Practice is the sole criterion of truth".

The revised version showed a departure from my earlier plans to write a textbook. Instead of trying to develop a comprehensive theoretical system, I did my best to apply the basic tenets of Marxism-Leninism to a study of the historical experience of China's socialist revolution and construction as well as the major economic problems awaiting solution. In the process of research, I deepened my understanding of the laws of motion of the socialist economy. I gave up on the textbook because I came to realize the difficulties in building a comprehensive theoretical system, given the brief history of China's socialist construction, the immaturity of its socialist economy and the insufficiency of its practical experience. On the other hand, having worked in the economic field for more than three decades, I wanted to devote my later years to a study of problems which, in my opinion, had to be examined and solved immediately. I offer my views to theoreticians and administrators alike and hope they may be of use in a future treatise on the political economy concerning socialism.

China's socialist revolution and construction have entered a new historical era. The Third Plenary Session of the Party's Eleventh Central Committee set forth the task of shifting the focus of the Party's work to socialist modernization and building a powerful socialist state by the end of this century. Reading about this policy decision, I felt I should complete my book as soon as possible. New

developments pose important theoretical and practical questions. The Party Central Committee has called on theoreticians to provide guidance for practical workers. Thus we who work in the theoretical field are asked to contribute to the country's four modernizations\* in our own way: by conducting a serious study of China's experience in socialist revolution and construction in the past thirty years and promoting the science of political economy in the new circumstances.

I would like to say a few words about my principles for studying the socialist economy:

1. *Integration of theory with practice.* In his article "Reform Our Study", Mao Zedong had this to say:

Although we are studying Marxism, the way many of our people study it runs directly counter to Marxism. That is to say, they violate the fundamental principle earnestly enjoined on us by Marx, Engels, Lenin and Stalin, the unity of theory and practice.<sup>1</sup>

The unity of theory and practice, that is, seeking truth from facts and aiming at one's target, should be our scientific approach. To examine the laws of motion of the capitalist economy, Marx collected a wealth of data – historical, current and theoretical. Then through a scientific analysis and comprehensive study of these data, he brought to light the essence of the capitalist relations of production and the laws governing their motion, concluding that the extinction of capitalism and the triumph of socialism are both inevitable. While studying Marx's *Capital*, we have to grasp not only his theory on the laws of motion of the capitalist economy but also his methodology. Empty, purely theoretical research divorced from reality and a simple repetition of the conclusions in the books are to be avoided.

Socialism is a new system. In studying the laws of motion of the socialist economy, we must always base our work on actual conditions. In a capitalist country, the mission of the working class is

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\*The modernization of industry, agriculture, national defence and science and technology. — *Trans.*

<sup>1</sup>Mao Zedong, "Reform Our Study", *Selected Works*, FLP, Beijing, 1977, Vol. III, p. 20.

to destroy the old world. In a socialist country, its task is to build a new world. Under capitalism, it is up to the capitalists to organize and manage production. In China today, socialist modernization and management of the socialist economy are a vital concern of the working people. It is our job to study the new developments and problems on the basis of Marxism-Leninism and Mao Zedong Thought, discover and apply the laws of the socialist economy, and solve the theoretical and practical questions of socialist economic construction.

Marx and Lenin showed us the laws governing the transition from capitalism to communism through socialism. Their scientific predictions remain the guide to our study of questions of the socialist economy. However, the classics they authored are insufficient for a study of the socialist economy because socialism never actually existed in their lifetime. History proves that the Marxist theory of socialism and communism can only develop through practice. We must never take what is said by Marx, Engels and Lenin in their works as dogma or as a panacea. Lenin said:

We do not regard Marx's theory as something completed and inviolable; on the contrary, we are convinced that it has only laid the foundation stone of the science which socialists *must* develop in all directions if they wish to keep pace with life.<sup>1</sup>

A theoretical study of China's socialist economy must proceed from present reality. China used to be a semi-colonial, semi-feudal country. It had the largest population in the world but a very low level of productive forces and a predominantly small-peasant economy. This was the basis on which socialist revolution and construction were undertaken after the proletarian seizure of state power. China is already a socialist country, but one with a backward economy and culture. We have had our successes and our failures. A look at the history of past thirty years shows that it is by no means easy to build socialism and achieve modernization in a country like ours. The path to China's goals can be found only through

<sup>1</sup> V. I. Lenin, "Our Programme", *Collected Works*, Foreign Languages Publishing House, Moscow, 1960, Vol. 4, pp. 211-12.

protracted studies on the basis of its actual conditions and the principles of Marxism-Leninism and Mao Zedong Thought. Deng Xiaoping pointed out:

Both in revolution and construction, we should also learn from foreign countries and draw on their experience. But the mechanical copying and application of foreign experience and models will get us nowhere. We have had many lessons in this respect. We must integrate the universal truth of Marxism with the concrete realities of China, blaze a path of our own and build a socialism with Chinese characteristics – that is the basic conclusion we have reached after summing up long historical experience.<sup>1</sup>

This should become the principle guiding our thinking in studying the science of economy.

2. *Concrete analysis of the contradictions in a socialist society.* Mao Zedong pointed out that contradiction is present in all things and permeates the course of development of each thing from beginning to end. Recognition of the internal contradictions of a thing means a grasp of its essence. Contradiction is the force that drives society forward. Without contradiction there can be no social progress in socialist society. He said:

In socialist society the basic contradictions are still those between the relations of production and the productive forces and between the superstructure and the economic base. . . . Socialist relations of production have been established and are in correspondence with the growth of the productive forces, but these relations are still far from perfect, and this imperfection stands in contradiction to the growth of the productive forces.<sup>2</sup>

In the past, influenced by “Left” ideas, we often thought that the imperfect aspect of the relations of production meant that they lagged behind the growth of the productive forces, never thinking

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<sup>1</sup> Deng Xiaoping, “Opening Speech at the Twelfth National Congress of the CPC”, *Selected Works*, FLP, Beijing, 1984. P.395.

<sup>2</sup> Mao Zedong, “On the Correct Handling of Contradictions Among the People”, *Selected Works*, FLP, Beijing, 1977, Vol. V, pp. 393 and 394.

that changes in the relations of production could exceed the requirements of the growth of the productive forces. Therefore, we always criticized the Right errors, never the "Left" ones, before the Third Plenary Session of the Party's Eleventh Central Committee. In the later stage of the socialist transformation of the private ownership of the means of production, especially after the basic completion of such transformation, we did not realize the obviously low level of China's productive forces. Therefore, we one-sidedly emphasized changing the relations of production so as to expand the productive forces. The results were contrary to what we had expected, for the productive forces were disrupted. "Left" mistakes brought great losses to socialist construction.

In his analysis of the contradiction between the productive forces and the relations of production, Marx proceeded from the objective realities of his time and often emphasized the contradiction caused by the relations of production lagging behind the productive forces. Even today, the contradiction between the relations of production and the productive forces in capitalist countries still manifests itself in the relations of production fettering the development of the productive forces. In China, before the socialist transformation of the private ownership of the means of production the main task was to change the relations of production so as to liberate the productive forces. However, after the basic completion of such transformation and the change of the private ownership of the means of production into public ownership the task should be to stabilize and improve the relations of production in order to protect and develop the productive forces. What merits our attention here is that our socialist state was established by a proletarian party that has a grasp of historical materialism and is dedicated to communism. With such a party controlling the state power, it is possible for our country to promote changes in the relations of production according to its own will. If, instead of proceeding from realities, we try to change the relations of production according to our wishful thinking, the result may be that the relations of production will go beyond the requirements of the growth of the productive forces, which may thus be disrupted. In 1958, for instance, people's communes, "large in size and having a high degree of public ownership" as Mao Zedong put it, were set up throughout the country, and there rose the

premature “communist wind” characterized by the attempt to effect a transition to communism. All this made agricultural production drop greatly. Afterwards, the people’s commune had to go back to the three-level\* system of ownership of the means of production, with the production team as the basic unit for production and distribution (also called the basic accounting unit). Consequently, agricultural production gradually rose again. After the Third Plenary Session of the Party’s Eleventh Central Committee, agricultural production grew by leaps and bounds, thanks to the introduction of the various forms of the system of contracted responsibilities with remuneration linked to actual output. Practice is the sole criterion for testing truth. As far as changing the relations of production in agriculture is concerned, we made the mistake of acting impetuously and rashly in the past decades.

In certain respects, China’s socialist transformation of private industry and commerce also overstepped the requirements of the growth of the productive forces. Since 1957, and especially since 1958, numerous private small industrial and commercial establishments, small co-operatives and individual business were merged with state enterprises. Many small co-operatives were merged to form co-operative factories whose method of management and operation and wage and labour systems were basically the same as those in state-run enterprises. It is true that neighbourhood enterprises emerged later in the cities and enterprises run by communes or their production brigades and teams appeared in the rural areas, but the neighbourhood enterprises were restricted more than supported and they were even deprived of the ownership of the means of production through measures to “elevate their level”. Only after the Third Plenary Session of the Party’s Eleventh Central Committee were urban citizens waiting for jobs permitted to set up co-operatives on their own for individual economic ventures within the limits prescribed by law, and in many cities and towns these new-born ventures have developed, thanks to official support and guidance. In other cities, however, they have developed slowly due to excess restrictions.

The relations of production include the economic management

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\*People’s commune, production brigade and production team – *Trans.*



system. With the system of management of the national economy through planning, all kinds of economic activities in a socialist country are guided and supervised through state plans and by the departments of economic administration. How to guide and supervise a large and complex national economic mechanism poses an enormous task to the state. Mao Zedong said in his speech "On the Correct Handling of Contradictions Among the People":

Relations between production and exchange in accordance with socialist principles are being gradually established within and between all branches of our economy, and more and more appropriate forms are being sought.<sup>1</sup>

Socialism should be established on the basis of large-scale socialized production which presupposes the full development of a commodity economy. At the time of the founding of New China, commodity economy in our rural areas was very backward, which was characteristic of the natural or semi-natural economy; although a commodity economy had been set up in the cities, large-scale socialized production was underdeveloped except in a few major cities. That is why we were liable to be influenced by natural economy when setting up our system of economic management. Marx once projected a socialism that might function without commodity-money relationship. China's economic management system of the early 1950s, which was modelled on that of the Soviet Union, featured national unified revenue and expenditure, unified distribution of the means of production and state purchase and marketing of all consumer goods. All this led to the practice of "everybody eating the rice cooked in one big pot", a practice that seriously fettered the initiative and enthusiasm of enterprises and of workers and staff members and thus hampered the growth of the productive forces.

Facts indicate that commodity-money relationship and commodity production and commodity exchange guided by state planning exist extensively in a socialist society. Therefore, every state enterprise should practise independent economic accounting and, in manage-

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<sup>1</sup>Mao Zedong, "On the Correct Handling of Contradictions Among the People", *Selected Works*, FL P, Beijing, 1977, Vol. V, p.394.

ment and operation, enjoy adequate decision-making power, within the limits prescribed by law. Instead of departmental barriers or regional blockade among themselves, state industrial and commercial enterprises should set up trans-regional and trans-trade economic networks according to the objective economic demands of large-scale socialized production so as to fully utilize the advantages of each and carry out co-operation in line with the objective law of such production. This should be done by taking advantages of all favourable factors and by co-ordinated efforts. Collective economic organizations in rural areas should have greater decision-making power, and the state should make greater use of the economic levers, especially the law of value, to bring their economic activities into the orbit of state planning. Rural commodity production and exchange should be stimulated and efforts made for specialized and socialized production. In recent years, specialized households and their associated organizations have emerged, giving birth to new-type co-operative economic organizations which, outside the scope of people's communes and their production brigades and teams, are suited to commodity production and circulation. Many enterprises run by communes or their subdivisions have broken through their boundaries to carry out specialized co-operation with the state or collective enterprises in the cities. From the above-mentioned facts we may see that the transition in the level of public ownership from production team to production brigade and then to commune, which we once envisaged, is not the only way to develop China's rural economy.

In its "Resolution on Certain Questions in the History of Our Party Since the Founding of the People's Republic of China", the Party's Central Committee pointed out:

The reform and improvement of the socialist relations of production must be in conformity with the level of the productive forces and conducive to the expansion of production. The state economy and the collective economy are the basic forms of the Chinese economy. The working people's individual economy within certain prescribed limits is a necessary complement to public economy. It is necessary to establish specific systems of management and distribution suited to the various sectors of the

economy. It is necessary to have planned economy and at the same time give play to the supplementary, regulatory role of the market on the basis of public ownership. We must strive to promote commodity production and exchange on a socialist basis. There is no rigid pattern for the development of the socialist relations of production. At every stage our task is to create those specific forms of the relations of production that correspond to the needs of the growing productive forces and facilitate their continued advance.<sup>1</sup>

This is a scientific conclusion based on the contradiction between the relations of production and the productive forces in a socialist society.

Since the contradiction between the relations of production and the productive forces and that between the superstructure and the economic base are basic to a socialist society, we should give this question serious consideration in a study of the political economy concerning socialism. Political economy is the science of relations of production which, nevertheless, cannot be studied separately from productive forces and the superstructure. Instead, it explores the growth of relations of production in light of the motion of opposites – the relations of production and the productive forces, the superstructure and the economic base.

*The study of the socialist relations of production as a process.* Every socio-economic formation goes through a process of development, which is the very subject matter of political economy. Socialism is not an independent socio-economic formation but the lower phase of communism and, as such, needs more study as a process. Some comrades attempt to disregard capitalism and communism in their study of the historical stage of socialism, seeing it as something rigid and immutable. This prevents any correct understanding of socialism.

Like the natural world, human society develops through a process of growth whereby the new supersedes the old. A new society invariably has certain remnants of the old. A dying society always exhibits some seeds of a rising one. Marx points out that a socialist

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<sup>1</sup>*Resolution on CPC History (1949-81)*, FLP, Beijing, 1981, p. 78.

society emerges from the womb of a capitalist society, and necessarily, bears its birthmarks. China's was not a pure capitalist society but a semi-colonial and semi-feudal one; its socialist society therefore shows the traces of capitalism as well as those of feudalism and the economy of the small commodity producer. The evolution of socialist relations of production coincides with the gradual disappearance of these remnants of the old society. On the other hand, seeds of socialism were engendered in China's liberated areas back in the days of her new-democratic revolution. In China's distribution system, vestiges of differential rent in the old society are found under collective ownership. In the economic sector under ownership by the whole people, where the general principle of "to each according to his work" is followed, collective welfare undertakings are developed with the growth of productive forces. Collective welfare contains rudiments of distribution on the communist principle of "to each according to his needs". If we do not take into consideration the objective dialectical law of the new superseding the old but look for a "pure" socialism free from both vestiges of the old and rudiments of the new, we are likely to fall victim to a metaphysical point of view.

Socialism is the necessary stage of transition between capitalism and communism. The period of socialism may last several hundred years and covers the transition from capitalism to socialism and from socialism to communism. This whole period of transition is again divided into smaller stages, including the transition from individual ownership to collective ownership, from collective ownership to ownership by the whole people and, finally, from socialist ownership by the whole people to communist ownership by the whole people. These transitions are effected through continual quantitative changes and a series of partial qualitative changes. Without quantitative change there can be no qualitative change, and without a series of partial qualitative changes it would be impossible to complete the fundamental qualitative change from capitalism to communism.

By partial qualitative changes in a general process of development we do not mean an absence of relative stability between two qualitative changes. When China's socialist system was first established, Mao Zedong pointed out :

. . . The new social system has only just been established and requires time for its consolidation. It must not be assumed that the new system can be completely consolidated the moment it is established; that is impossible. It has to be consolidated step by step.<sup>1</sup>

He also said: "Our basic task has changed from unfettering the productive forces to protecting and expanding them in the context of the new relations of production."<sup>2</sup>

The Gang of Four argued that at no time can productive forces grow without a change in the relations of production, and advocated unconditional, continual change in the social relations of production. This was an anti-Marxist view.

While stressing the need to consolidate the socialist relations of production, including collective ownership in agriculture, we do not mean these relations are perfect at the present stage. On the contrary, they are imperfect in many respects. The lower the level of productive forces, the less perfect are these relations. The "Resolution on Certain Questions in the History of Our Party Since the Founding of the People's Republic of China" referred to previously states:

Of course, our system will have to undergo a long process of development before it can be perfected. Given the premise that we uphold the basic system of socialism, therefore, we must strive to reform those specific features which are not in keeping with the expansion of the productive forces and the interests of the people, and to staunchly combat all activities detrimental to socialism.<sup>3</sup>

This means that for a fairly long time all we have to change are those parts of the socialist relations of production which hamper the growth of productive forces or the four modernizations. The changes will perfect and consolidate the socialist relations of

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<sup>1</sup>Mao Zedong, "Speech at the Chinese Communist Party's National Conference on Propaganda Work", *Selected Works*, FLP, Beijing, 1977, Vol. V, pp. 422-23.

<sup>2</sup>Mao Zedong, "On the Correct Handling of Contradictions Among the People", *Selected Works*, FLP, Beijing, 1977, Vol. V, p. 397.

<sup>3</sup>*Resolution on CPC History (1949-81)*, FLP, Beijing, 1981, p. 75.

production. But there will be no change in the socialist relations of production as a whole until a gradual transition to the higher phase of communism is made possible by a spectacular rise in both productive forces and people's communist consciousness.

The "Resolution on Some Questions Concerning the People's Communes" adopted at the Sixth Plenary Session of the Eighth Central Committee of the Chinese Communist Party in December 1958 states:

We are advocates of the Marxist-Leninist theory of uninterrupted revolution; we hold that no "Great Wall" exists or can be allowed to exist between the democratic revolution and the socialist revolution and between socialism and communism. We are at the same time advocates of the Marxist-Leninist theory of the development of revolution by stages; we hold that different stages of development reflect qualitative changes and that these stages, different in quality, should not be confused.

This is the correct approach for our study of the socialist economy. We have to recognize both the transitional and the protracted nature of socialist society. A leap in quality has to be preceded by an accumulation of innumerable quantitative changes, and a complete change in quality by a number of partial qualitative changes before the realization of communism.

This book can only be regarded as a draft. I invite theoreticians, business administrators and other readers to give their comments and criticisms for a further revision of the text.

Thanks are due to Su Xing, He Jianzhang, Yu Xueben and Wu Kaitai who participated in the discussion and revision of the whole book and to Xu He and Wu Shuqing who took part in the discussion and writing of some chapters of a previous draft.

## **Chapter I**

# **CHINA'S SOCIALIST REVOLUTION AND SOCIALIST CONSTRUCTION**

In carrying out socialist revolution and construction in a poor, backward and populous country, we have achieved many successes and met with some failures. To realize our goal of four modernizations it is important to sum up the historical experience in the 30 years since the founding of the People's Republic and examine the objective laws governing the growth of the socialist economy.

### **1. PARTICULARITIES OF CHINA'S SOCIALIST REVOLUTION**

Marx and Engels assumed that the proletarian socialist revolution would first be successful in the most developed capitalist countries, such as Britain, France, Germany and the United States, perhaps all at once. Had this been the case, the transition from capitalism to socialism would have been much easier. But history takes a tortuous course. Up to now, no proletarian revolution has triumphed in any of these countries. The proletariat in Russia, a less developed capitalist country, seized state power more than 60 years ago. Unlike the opportunist leaders of the Second International who ignored the changes in the objective situation and confined themselves to the specific theoretical conclusions of Marx and Engels, Lenin creatively developed Marxism under new historical circumstances. He pointed out that in the epoch of imperialism, the uneven political and economic development of the capitalist countries had made it possible for the proletariat to triumph first in a country representing the weakest link in the capitalist world. Since history

offered such an opportunity to the proletariat, should it seize power first and then develop the economy and culture of the country, or should it refrain from doing so until after a full economic and cultural development? Lenin chose the first course, which has been proved correct by the victory of the October Revolution and the subsequent successes in socialist revolution and construction in the Soviet Union.

The salvoes of the October Revolution brought Marxism-Leninism to China which, as a semi-colonial, semi-feudal country, saw the victory of its own proletarian revolution 32 years later. The weakness of China's national bourgeoisie made it necessary for the proletariat to exercise leadership, through the Communist Party, in the democratic revolution against imperialism, feudalism and bureaucrat-capitalism and guide it to victory. The Chinese revolution differed from the Russian revolution in that, while the Russian proletariat seized power through armed uprisings in the cities and then extended the revolution to the countryside, the Chinese proletariat, being small and weak, had to rely on the peasants as its chief ally, establish its revolutionary bases in the rural areas, and then encircle and capture the cities from there. This was a new trail blazed by Mao Zedong and other Chinese revolutionaries for the proletarian revolution in a poor and backward country. Protracted armed struggle by the Chinese peasants under proletarian leadership resulted in the complete victory of the democratic revolution and the political predominance of the proletariat in a people's democratic dictatorship which is essentially a proletarian dictatorship.

History posed a new question to us: in our economically backward country of small peasants, would it be possible to establish a socialist economy by carrying out an immediate socialist transformation of ownership of the means of production? After taking over enterprises owned by bureaucrat-capital and changing them into socialist state enterprises, the proletariat had already established its superiority over the national bourgeoisie in the economic field. Now the question was: who was to assume leadership over the economy of the numerous individual peasants? It was clear that in the struggle between the proletariat and the bourgeoisie, whoever gained leadership over the small peasant economy would emerge victorious.

The Chinese Communist Party won victory in the new-democratic



revolution mainly by relying on the peasants during the 22-year armed struggle in the rural areas. It firmly united the peasants politically and worked out a whole series of measures to direct the small peasant economy. Seeing how scattered and hard to manage the small peasant economy was, Lenin believed it was more difficult to deal with the small peasants than with the bourgeoisie. In the first half of 1918, he suggested using state capitalism to combat the spontaneous capitalist tendency of the peasants. During the period of foreign armed intervention and civil war, he was compelled to put war-time communism into effect and tried to do away with the commodity-money relationship. When this proved impracticable, he advanced the New Economic Policy, an attempt to control the small peasant economy through the market by developing state and co-operative commerce. To this end, he called on Communists "to learn how to do business".

The situation in China was different. During the revolutionary wars, we set up supply and marketing co-operatives throughout the rural base areas which purchased the peasants' farm produce and provided them with manufactured goods. In this way we rehabilitated agricultural production, gave much support to the war effort, and rallied the peasants around us while weakening their ties with the bourgeoisie. After the victory of the War of Liberation (1946-49), similar co-operatives were established in the newly liberated areas to link the socialist state economy with the small peasant economy. From the very outset, we laid a solid foundation for the solution of a problem which Lenin regarded as a hard nut to crack.

Could we start a socialist revolution immediately following victory in the democratic revolution? The answer wasn't clear at the beginning. Half of the country had only just been liberated, and it would take two or three years to complete the agrarian reform, a task of the democratic revolution, in this vast region. When we did complete the agrarian reform, the peasants generally showed enthusiasm in expanding their individual economy while many poor peasants preferred to take the road of socialism. But we had no experience in organizing the peasants on the basis of a socialist collective economy. On the Marxist principle that socialism can only be built on the basis of large-scale socialized production, some

people held that mechanization must come before collectivization in China's agriculture. This view did not seem to apply to the conditions in China's rural areas, where the cultivated land averaged three *mu*\* per capita and about a dozen *mu* per household, which were often divided into several patches. The small peasant economy showed a low labour productivity and was incapable of accumulating large funds. Without managing agriculture on a co-operative basis it was difficult to lay out large tracts of farmland or accumulate sufficient funds for mechanization. Meanwhile, individual peasants, especially the poor and lower-middle peasants who had newly obtained land during the agrarian reform but lacked other means of production, desired mutual aid and co-operation in order to avoid borrowing at usurious rates of interest and even mortgaging or selling their land and in order to avoid economic polarization among the peasants. At the proposal of Mao Zedong, the Central Committee of the Party announced in 1952 the general line for the transition period, which was to realize step by step China's socialist industrialization and the socialist transformation of its agriculture, handicrafts and capitalist industry and commerce. The movement for agricultural co-operation,\*\* which reached its height in 1955, was basically completed in the next year.

Since China's agricultural co-operation was carried out on the basis of manual labour and a substantially self-sufficient economy, it lacked a solid foundation. The relations of production can never surpass the level of productive forces. Co-operation on such a basis precludes the establishment of many big farms. The basic completion of the process of co-operation in 1956 was followed by the establishment of people's communes in 1958. With the exception of a small number of economically advanced communes and production brigades, the communes are still being operated at a very low level of public ownership and the production team remains the basic unit of production and distribution. Over the years many areas have seen premature attempts to raise the level of public ownership in the people's communes whereby the production brigade or even the

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\*One *mu* equals one-fifteenth of a hectare. — *Trans.*

\*\*Here "co-operation" means the same thing that "collectivization" means in the Soviet Union. — *Trans.*

commune was made the basic unit of production and distribution, while the peasants' private plots and household side-line occupations were abolished. The result was a dislocation of productive forces and a marked decline in agricultural production and the peasants' standard of living. Experience shows that if we ignore the realities of China's agricultural production and go against the basic law of economic growth, namely, the relations of production must conform to the level of productive forces, we shall be punished for our mistake.

Similarly, the socialist transformation of China's capitalist industry and commerce could only be carried out step by step in view of the country's economic backwardness. In his report to the Second Plenary Session of the Party's Seventh Central Committee in March 1949, Mao Zedong pointed out that the output value of China's modern industry only accounted for some 10 per cent of the total output value of the nation's economy, while private capitalist industry took second place in modern industry\* and was still a force to be reckoned with. Because of old China's economic backwardness, it was necessary, for a fairly long time after the victory of the revolution, to make full use of the initiative of private capitalism in the interest of national economic growth. After the founding of New China, while expropriating bureaucrat-capital, we didn't confiscate national capital. Instead, we made use of its positive side which did good to the economy and the people's livelihood, restricted its negative side which did harm to the latter, and accomplished its gradual socialist transformation through state capitalism. This policy towards capitalist industry and commerce conformed to the level of China's productive forces.

With the completion of the socialist transformation of agriculture, handicrafts and capitalist industry and commerce, China became a socialist country. But its socialist economy remains immature and imperfect and has a long way to go before it reaches the first phase of communism envisaged by Marx in his *Critique of the Gotha Programme*. Socialist society or the first phase of communism, as Marx defines it, is based on ownership of the means of production by the whole society or, as we put it, on a unitary system of

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\*After the industry owned by bureaucrat-capital.—*Trans.*

ownership by the whole people. The peasantry accounted for some 90 per cent of China's population at the time of liberation and remains more than 80 per cent at present. The country has more than 800 million peasants, mostly living in the economic sector under collective ownership. While ownership by the whole people occupies a leading position in the nation's economy, collective ownership is predominant in the rural areas. Much of China's industry is still operated by semi-mechanized means or by manual labour. In the service trades, most people are doing manual labour, making necessary the preservation and development of enterprises under collective ownership. After organizing the handicrafts and small businesses into co-operatives, we took premature steps to place them under ownership by the whole people. We now see it as a mistake. Even in cities and towns it is necessary to preserve and develop some enterprises under collective ownership that are responsible for their own profits or losses, because they add diversity and flexibility to production and economic management, contributing significantly to full employment and meeting the great variety of consumer needs. At the same time, a fair amount of individual economy needs to be preserved in the cities as well as in the countryside as a supplement to the state and collective economy.

To reveal the essence of capitalist relations of production, Marx often applies the method of abstraction in his works on political economy. *Capital* deals mainly with the most typical class relationship in capitalist society, the relationship between the bourgeoisie and the proletariat, and says very little about small producers. In his days, while few small producers were left in Britain, vast numbers of them were found in other countries. Today there are still more than two million private farms in the United States, an indication that even in the highly developed capitalist countries the situation after the victory of the socialist revolution will be much more complicated than what is described in the passages on the first phase of communism in the *Critique of the Gotha Programme*. China used to be a country dominated by small producers who conducted partially self-sufficient production by manual labour. To develop China's socialist economy, we must take this background into consideration and skilfully combine principle with flexibility instead of adhering dogmatically to the conclusions of

Marx, Engels, Lenin and Stalin; copying their models mechanically would lead to an ossification of China's socialist economy. The measures to be adopted in different regions should vary with their natural and economic conditions, and the level of public ownership may be higher or lower as the circumstances require. A singular standard for all regions will hamper the growth of production.

## **2. GUIDELINES FOR CHINA'S SOCIALIST CONSTRUCTION**

China's First Five-Year Plan for the building of socialism began in 1953. Actually, construction started immediately after the founding of the People's Republic in 1949. Industrial and agricultural production grew rapidly during the three years of economic rehabilitation (1949-52). Farm output rose by 48.5 per cent, averaging 14.1 per cent a year. Industrial output went up by 145 per cent, averaging 34.8 per cent a year. In industry, the average yearly increase in light industry was 29 per cent and that in heavy industry 48.8 per cent. Of course, the high rates were peculiar to a period of recovery and could not be attained in normal times. As agriculture, light industry and heavy industry each grew at a different rate, the proportions they accounted for in the gross industrial and agricultural value of output changed accordingly. Between 1949 and 1952, the proportion contributed by agriculture dropped from 70 to 58.5 per cent while that of light industry rose from 22 to 26.7 per cent and that of heavy industry grew from 8 to 14.8 per cent. The rapid growth of heavy industry was mainly due to the rehabilitation it underwent following serious dislocation from war. Although its annual output surpassed the peak in history after three years of recovery and expansion, heavy industry still accounted for an insignificant proportion in the gross industrial and agricultural value of output.

Like the Soviet Union, China carried out a policy of giving priority to heavy industry during the First Five-Year Plan period (1953-57). With Soviet aid, it launched 156 major construction projects, mainly in heavy industry, to lay the groundwork for socialist industrialization. But giving priority to heavy industry could not but affect the peasants's standard of living and the growth of agriculture. Where

were the enormous funds for heavy industry to come from? In those days, the bulk of money could only come from the peasants. Heavy industry, which initially accounted for only 8 per cent of the gross industrial-agricultural value of output, could not provide much of the money by itself. Light industry did accumulate more funds, but it earned much of its profit through unequal exchange with the peasants. In other words, it purchased raw materials from the peasants at relatively low prices and sold textiles and other manufactured goods to them at relatively high prices. In fact, the peasants contributed several times more to the state through such unequal exchange than what they paid in agricultural tax. The rapid growth of industry and the urban population created the problem of supplying greater volumes of grain, non-staple foods and cotton to the cities and industrial centres. To cope with the situation, the state had to buy grain and cotton from the peasants on a requisition basis and then subjected both to its monopoly purchase. It also started to buy meat, eggs and other foods from the peasants by assigned quotas. All this limited the supplies available for the peasants' own consumption, and excessive state purchase of grain in some years reduced the peasants' food grain, dampening their enthusiasm in production.

To build big socialist industry in an economically backward, agricultural country, it is indeed necessary to obtain some funds from the peasants, but they cannot be expected to contribute too much. The Soviet government, while giving priority to heavy industry, squeezed the peasants too hard, stunting the growth of agriculture. Soviet heavy industry did make speedy progress at the outset. But as agriculture and light industry could not keep pace with the rising needs of the urban people, the development of heavy industry became increasingly difficult. In his 1956 report, "On the Ten Major Relationships", Mao Zedong summed up China's own experience in light of the lessons provided by the Soviet Union. He pointed out that while emphasis should be placed on heavy industry, special attention should be paid to the growth of agriculture and light industry and under no circumstances should a policy of "draining the pond to get all the fish" be adopted towards the peasants. The speech defined a correct guideline for China's socialist construction. At the time of the founding of New China, peasants accounted for some 90

per cent of the population. Their standard of living was very low and many of them were inadequately fed or clothed. In such a situation we should have applied to the peasants a policy of recruiting fewer labourers for the construction of public projects, collecting less government grain, and giving the rural economy a chance to build up its strength. Heavy industry should not have been built on such a large scale while more money should have been saved for agricultural development and the improvement of the peasants' livelihood. Had things been done this way, it might have been possible for the overwhelming majority of the peasants to secure adequate food and clothing in three to five years, which would have accelerated the growth of agriculture.

Requisition purchases and state monopoly, plus the rationing of meat, eggs and other non-staple foods almost everywhere in the country, were signs that agricultural production could no longer meet the needs of industrial development, particularly those arising from the expansion of heavy industry and the accompanying growth of the urban population. These developments served as a warning for us to readjust the ratio between agriculture and light and heavy industries along the guidelines set forth in "On the Ten Major Relationships". The readjustment was not made, however. In 1956, the rate of agricultural growth began declining, partially due to the excessive speed of the drive to set up agricultural co-ops. The rate of industrial growth also fluctuated and showed a general downward trend. Instead of detecting these symptoms of a disproportion between agriculture, light industry and heavy industry, we took the erroneous view that the bigger the base, the lower would be the rate of increase, and called this an objective law of economic growth. Worse still, beginning 1958, a "great leap forward" was initiated in heavy industry, resulting in a sharp drop in agricultural production from 1959 onward and a subsequent drop in light industrial production from 1960 onward; then a slump in heavy industrial production surfaced in 1961. This was a punishment meted out to us by the laws of economics. In 1961 the Party Central Committee shifted to a policy of "readjustment, consolidation, filling out and raising standards", lowering the targets of heavy industrial production and curtailing capital construction. By 1965, the economy was back on its feet again.

Historical experience shows that, since China is still an agricultural country, its economic plans must be based on the principle of taking agriculture as the foundation and industry as the leading factor and must be arranged in the order of priority of agriculture, light industry and heavy industry. If we had conscientiously followed this guideline from the beginning, agriculture, and consequently light industry, would have developed rapidly, resulting in a higher standard of living and a greater financial revenue, which could be used for building up heavy industry as well. This would have meant an ever broader road towards progress, one with a continual rise in industrial and agricultural production and ample supplies for the people. Instead, we attempted to develop heavy industry at the expense of agriculture and the peasants' living standard, and so had to meet the urban people's needs by requisition purchases, state monopoly and rationing, bringing on ever greater difficulties for ourselves. To this day about 80 per cent of China's labour force is still engaged in agricultural production, which includes forestry, animal husbandry and fishery. For a time some cultivators of grain crops were underfed; some pig breeders seldom had meat; we had to import for the urban population much of the food grain and part of the cotton, edible oil and sugar. All this pointed to a disproportionate economy calling for drastic readjustment.

The present economic imbalance is the culmination of a series of occurrences in over two decades, particularly the activities of the Lin Biao and Jiang Qing counter-revolutionary cliques. Except in the five years of readjustment (1961-65), the question of imbalance drew little attention. Accustomed to the status quo, many comrades failed to see requisition purchase, state monopoly and the rationing of more and more items as symptoms of a disproportionate economy, but as manifestations of "the superiority of socialism" and measures indispensable for a planned economy. Contrary to their belief, the widening range of controls affected the working people's enthusiasm in production and particularly the growth of agriculture. And as agriculture and light industry slowed down the pace of their development, shortages of daily necessities grew rather serious, necessitating more controls and a dependence on imports. The vicious cycle was a result of not giving priority in the order of agriculture, light industry and heavy industry. We must take into full



account the danger of this vicious cycle and make up our minds to readjust the proportions between agriculture, light industry and heavy industry and between accumulation and consumption. This will enable us to increase the supply of daily necessities and raise the people's living standard. It is the only way to speed up the four modernizations and ensure a sustained high speed of economic growth.

At present and for a fairly long time to come, our task is to unite the people of all nationalities in our country and, through self-reliance and hard work, gradually modernize our industry, agriculture, national defence and science and technology and make China a socialist country with a high level of civilization and democracy. Whether we can realize the four modernizations by the end of this century has a close bearing on the destiny of the nation. The Third Plenary Session of the Party's Eleventh Central Committee called for redressing the serious disproportions in the major sectors of the national economy. And the Second Session of the Fifth National People's Congress held in June 1979 decided that the country should devote three years to readjusting, restructuring, consolidating and improving the national economy in order to bring it, step by step, on to the path of sustained, proportionate and high-speed development. This is the first battle for the four modernizations that we must fight following the shift of the focus of our work to socialist modernization. The task of readjusting, restructuring, consolidating and improving the economy are inter-related and mutually complementary. Readjustment, which is crucial to the entire economic situation, is aimed at a co-ordinated advance of agriculture, light industry and heavy industry. It calls for balanced progress in the different branches of agriculture and of industry. It also means establishing a proper ratio between the rate of accumulation and the rate of consumption. All this is to be coupled with measured but firm steps to effect an overall reform of the system of economic management. The existing enterprises, especially the poorly managed ones, will be streamlined to achieve a sharp rise in production, technology and managerial efficiency. As production improves, so will the people's standard of living, demonstrating the superiority of the socialist system.

Now, the readjustment of the national economy has yielded

remarkable results. Through the readjustment in the past few years, the ratio between accumulation and consumption and the ratio between agriculture, light industry and heavy industry are tending to be basically balanced. However, the task of readjustment has not yet been completed. In his "Report on the Sixth Five-Year Plan" to the Fifth Session of the Fifth National People's Congress Zhao Ziyang said,

The readjustment of our national economy has now entered a new, more advanced stage. Provided that overall arrangements are made both for the people's livelihood and for production and construction, we should now focus on continued readjustment of the structures of agriculture and industry and their product mix as well as the structure of enterprises so as to achieve far better economic results in the course of steadily expanding our national economy.<sup>1</sup>

This is an important guarantee for a basic improvement in China's financial and economic situation.

### 3. THE STAGES OF SOCIALIST DEVELOPMENT

The two phases of communism are defined by Marx in his *Critique of the Gotha Programme*. In the lower phase, where the means of production are already owned by society as a whole, there is no longer any exploitation of man by man. Nevertheless, labour remains the measure of distribution of the means of subsistence under the principle, "from each according to his ability, to each according to his work". In other words, a certain amount of labour is exchanged for products turned out by an equal amount of labour. In the higher phase of communism, the above principle is replaced by that of "from each according to his ability, to each according to his needs".

In 1956 and 1957, the socialist transformation of agriculture, handicrafts, and capitalist industry and commerce was basically

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<sup>1</sup>*Fifth Session of the Fifth National People's Congress*, FLP, Beijing, 1983, p.145.

accomplished in China. The process remained incomplete in capitalist industry and commerce because capitalists still drew a fixed interest and a considerable number of joint state-private stores were responsible for their own profits or losses and in fact served as private dealers for state commercial departments. From 1967, fixed interest for capitalists was abolished and the above-mentioned state-private stores ceased being responsible for their profits or losses. (As a matter of fact, fixed interest was discontinued after the start of the "Cultural Revolution" in 1966.) Thus the bulk of industry came under ownership by the whole people, existing side by side with a predominant collective system of ownership by the working people in agriculture. The means of production in the collectively owned sector are the common property of the working people in one particular collective or another but not that of the whole society. The products of a collective are distributed within its framework and not on a national scale. Socialism characterized by the co-existence of these two systems of public ownership is obviously different from what Marx defines as the first phase or lower phase of communism. It can only be regarded as immature, imperfect socialism. At the same time, there should be no doubt about its being socialist because the means of production are publicly owned, either nationally or collectively, and exploitation is basically eliminated.

The term "the transition from capitalism to communism" appears in Marx's *Critique of the Gotha Programme*, Lenin's *State and Revolution*, and other works. Over the years, the term has been misinterpreted as meaning the whole process of development from capitalism to the higher phase of communism—a view which has been widely accepted by Chinese theorists. This is clearly not the original meaning of the concept. The transition from capitalism to communism discussed by Marx and Lenin refers to the transition from capitalism to socialism or the first phase of communism. In *The State and Revolution*, Lenin clearly divides the process of growth of communist society into three stages: first, the transition from capitalism to communism; second, the first or lower phase of communist society; and third, the second or higher phase of communist society. If the period of transition from capitalism to communism covers the attainment of the higher phase of commun-

ism, how can there be a lower phase of communism after that? Since socialism is the lower phase of communism, Marx terms the transition from capitalism to socialism a transition to communism. In keeping with Marx's formulation, Lenin pointed out in *The State and Revolution*:

What is usually called socialism was termed by Marx the "first" or lower phase of communist society. In so far as the means of production become *common* property, the word "communism" is also applicable here, providing we do not forget that this is *not* complete communism.<sup>1</sup>

After the victory of the October Revolution, Lenin often called the transition from capitalism to communism a transition from capitalism to socialism. In his view, the two formulations had the same meaning.

Marx points out that communism is divided into two phases and that socialism is the lower phase. Current history poses a new question to us: Should not socialism also be divided into several phases? In a country with an extensive small peasant economy, we must first transform such an economy into a collective economy and, after a considerably long time, transform the latter into an economy under ownership by the whole people along with the growth of productive forces. Before all means of production come under ownership by the whole society, there is a period in which two systems of socialist public ownership exist side by side. This is the immature stage of socialism, in which China now finds itself. Recognition of this point is highly important because it helps to prevent a premature application of certain principles applicable only to the first phase of communism defined by Marx.

For two decades and more after the basic completion of the socialist transformation of the private ownership of the means of production, we made some mistakes in our work, mainly that we were over-impetuous to pass from one stage to another. Instead of having to phase out, collective ownership in China needs to exist and be made more dispersed in a fairly long period to come, and

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<sup>1</sup>Lenin, *The State and Revolution*, FLP, Beijing, 1965, p. 117.

production responsibility system on a household basis should exist in the collective economy. This is just like commodity production, which will not vanish until after a period of considerable growth. The initial realization of agricultural mechanization will not be followed by an immediate, smooth transition to ownership by the whole people because vast differences in income will remain between regions, communes and production brigades and teams. Collective ownership will continue to exhibit its vigour and vitality for quite some time. It will be necessary for the rural areas and, to a certain extent, for the cities as well, to develop collective enterprises responsible for their own profits or losses that compete with enterprises under ownership by the whole people. We should fully recognize the protractedness of the socialist period and its division into stages. In the present historical stage, what we should do is to persist in making the state economy play the leading role and to develop varied economic forms. We should not be over-anxious to transit from one stage to another. If we try to do that, the growth of productive forces will suffer, much to the detriment of the consolidation of the socialist system and the transition to communism.

A fully mature socialist society is distinguished mainly by its relations of production, namely, a unitary ownership by the whole people instead of the co-existence of two systems of socialist public ownership. The change is preconditioned by a tremendous growth of the productive forces along with changes in the superstructure and a significant rise in the people's material life and in their cultural level. In my view, the following tasks must be fulfilled before a fully mature socialist society takes shape.

1. The modernization of industry, agriculture, national defence and science and technology. Socialism must be built on the material basis of highly mechanized and socialized production, while the relations of production must be suited to the same level of productive forces. And only by rapidly developing our productive forces can we consolidate the socialist relations of production and ensure their further advance.

2. The further growth of the state economy and the further improvement of the economic structure and the economic management system so that the state economy will be able to fully play its

leading role in the national economy as a whole. In the countryside, there will be a varied and further improved co-operative economy featuring diversified undertakings, division of labour and co-operation and more possibilities for tapping local potentials and adopting advanced production measures on a large scale. Along with structural changes in industry and agriculture and in the city and countryside, the gap between worker and peasant and between town and country will narrow more rapidly.

3. An abundant supply of products basically ensuring the people's increasing material and cultural enjoyments, which will naturally result in the abolition of the rationing of daily necessities. While the system of "to each according to his work" remains in force, the working people will be free to buy varied and high-quality consumer goods they desire with the reward for their labour (money). The people will be provided with sufficient food, clothing, shelter, transportation, medical care and recreation and with better collective welfare facilities such as apartment houses, canteens, nurseries and kindergartens, all of which will be run on a social basis.

4. The building of a civilization with a new, higher cultural and ideological level. The educational, technical and cultural levels of the entire nation will rise greatly. Secondary education will be made universal, including ordinary secondary education and secondary vocational education. Apart from a large number of new institutions of higher learning, spare time educations will be promoted all over the country to disseminate knowledge in all fields. School education is one stage of learning, but most of the knowledge will be learned in vocational practice. Cultural undertakings such as art and literature, the cinema, television, broadcasting, the press, publication, libraries, museums and cultural centres as well as public health service and physical culture will be widely developed. Communist ideology and work attitude will be carried forward. All this will enable the broad masses of the people to become workers with lofty ideals, moral integrity, education and a sense of discipline.

5. A highly developed system of people's democracy which gives the people a true right to participate in the management of state organs, enterprises and public undertakings. The main political function of the state will gradually change from suppression of class enemies to protection of the democratic rights of the people.

Naturally, before the thorough abolition of class struggle, the state will strike, by legal means, at the hostile elements who deliberately try to undermine socialism and elements who seriously jeopardize public security. So long as there exists the danger of armed aggression and subversion by imperialism and hegemonism, the state organs will continue to safeguard the peace, independence and sovereignty of the country.

When socialism reaches full maturity, it will advance towards the second or higher phase of communism. The conclusion of the first phase may well be the beginning of the transition to the second. It may be necessary to complete in the second phase some tasks left from the first one in the same way as agrarian reform, a task left unfinished during the democratic revolution, had to be completed in the period of the socialist revolution.

## Chapter II

### PLACING THE MEANS OF PRODUCTION UNDER SOCIALIST OWNERSHIP

#### 1. BUILDING UP THE SOCIALIST STATE ECONOMY—THE LEADING SECTOR

Old China was a semi-colonial, semi-feudal country. The founding of New China marked the completion of China's new-democratic revolution and the beginning of its socialist revolution. The basic task of the new-democratic revolution was to overthrow imperialism, feudalism and bureaucrat-capitalism and establish a people's democratic dictatorship led by the proletariat and based on a worker-peasant alliance. As a general rule, socialist relations of production cannot come into being under capitalism or feudalism. In China, however, rudiments of socialism appeared even before the nationwide victory of the revolution because economic sectors under state and co-operative ownership were established in the revolutionary base areas under Communist leadership.

The socialist state economy expanded in the latter days of the War of Liberation as the People's Liberation Army captured more and more major cities. The people's governments established in these cities confiscated bureaucrat-capitalist enterprises and placed them under state ownership.

On a national scale, the period of transition to socialism lasted from the founding of the People's Republic in 1949 to 1956 when the socialist transformation of the ownership of the means of production was essentially completed. The Communist Party's general line or general task in this period was to realize in the main, over a fairly long period of time, the country's industrialization and the socialist transformation of its agriculture, handicrafts and capitalist industry



and commerce. The task involved a very complicated struggle between socialism and capitalism.

When New China was just founded, its economy was composed of three main sectors: the socialist state sector, the capitalist sector and the sector under ownership by individual peasants and handicraftsmen. Although the individual sector accounted for nearly 90 per cent of the gross value of industrial and agricultural output, it occupied a subordinate position in the economy because of antiquated methods of production. The socialist state enterprises, converted from the Kuomintang's bureaucrat-capitalist enterprises, enjoyed predominance over the national capitalist ones in fixed assets. But they were largely in a state of paralysis at the time of liberation because their equipment had been taken away or even destroyed by the Kuomintang troops on the eve of their retreat. The national capitalist enterprises, which carried on normal operation, were actually much stronger in terms of output value and sales volume. Of the total industrial output value in 1949, the state sector accounted for 34.7 per cent, the joint state-private sector 2 per cent and the private sector 63.3 per cent. Of the total retail sales in 1950, state commerce accounted for 14.9 per cent and private commerce 85.1 per cent. A struggle for leadership between the socialist and capitalist sectors began with a fight over market prices.

With the liberation of Shanghai and other big cities, the "gold yuan" notes issued by the Kuomintang regime became mere scraps of paper while the Renminbi (people's currency) came into use as the only kind of legal tender. But the People's War of Liberation was still going on and the people's government could hardly balance its budget because it had to supply provisions for nine million troops and civil servants and finance the efforts to restore communication and transportation. Speculators who had fattened themselves through a dozen years of Kuomintang inflation exploited the situation to profit by hoarding and jacking up prices. For this purpose, they absorbed idle capital at a monthly interest rate of 40 per cent. Industrial and commercial capitalists joined in the stampede, making fabulous profits not from production but from inflation. Under the pressure of the rising prices, industrial workers and civil servants exchanged grain and daily necessities for paper money the moment they got their pay. Peasants simply dispensed

with banknotes and traded on a barter basis. The limited amount of paper money in circulation was proof that the entire problem had been caused by the speculators. Unless market prices were stabilized, it was impossible to rehabilitate production, ease the people's life and establish the leading position of the socialist state economy.

Early in 1950, the people's government centralized the management of financial and economic affairs, including revenue and expenditure, the allocation of funds and supplies, and the handling of cash payment. It established rigid control over grain, the main target of the speculators' panic buying, by collecting public grain (the agricultural tax) from the peasants and purchasing their surplus grain. After these preparations, it mounted a surprise counter-attack. State commercial departments dumped large quantities of grain on the market for sale at relatively low prices. For three days the speculators rushed to buy it until they had used up nearly all the idle capital they could collect. After a few more days they were compelled to sell their grain at a loss in order to pay their short-term, high-interest loans. The price of grain fell, and so did the prices of other commodities. The speculators received a crushing blow, while industrial and commercial capitalists who had joined in the game also landed themselves in dire straits because they could find no market for their hoarded grain. Many had no money to buy raw materials or pay the workers' wages and so asked the people's government for help. This victorious battle to stabilize prices enabled the socialist state economy to establish its control over the market as well as the capitalist sector.

As soon as prices became stable, people were willing to keep their money. The banknotes in circulation fell short of demand. The people's government issued more money to promote economic development. First, the state needed money to pay for the grain, cotton and other farm produce purchased from the peasants, who used it to buy means of production for the recovery and growth of agriculture as well as manufactured goods for their use, promoting industrial growth in the process. Secondly, the state needed money to purchase the goods stock-piled by private industrial and commercial enterprises, enabling them to get over their financial difficulties and restore production at a faster pace. Of the private industrial enterprises, the largest number were textile mills, and the second

largest were flour mills. Most of the cotton and wheat they needed were in the hands of the state. The state provided them with raw materials and placed orders for the finished products, paying them for the processing. This practice was welcomed by the capitalists because it gave them three things: a source of raw materials, a market, and a reasonable profit. Conducting production according to state requirements, they were actually guided onto the road of state capitalism. The state purchased large quantities of farm produce through its supply and marketing co-operatives and acquired enormous volumes of manufactured goods by placing orders with private enterprises. As a result, the state gained control of the major part of the wholesale trade. All this resulted in state leadership over peasants, handicraftsmen as well as private industry and commerce — a decisive victory of the proletariat over the bourgeoisie and of socialism over capitalism in the struggle for economic predominance.

More than ten years of war and inflation before the founding of New China had jammed the commercial interflow between town and country. As soon as commercial speculation was crushed and market prices stabilized in the post-liberation period, the artificial purchasing power backed by idle capital vanished, giving rise to a temporary phenomenon of overproduction. For a time, it seemed difficult to market manufactured goods, farm produce and various kinds of local and specialty products. The people's government therefore organized a drive to promote the exchange of goods between the cities and the countryside. State commercial agencies and private businessmen were called upon to sell manufactured goods in the rural areas and farm produce and local and specialty products in the cities. Many kinds of merchandise once regarded as unsalable found a ready market, much to the benefit of industrial and agricultural production.

Owing to the ravages of the war, production had dropped 25 per cent in agriculture, 30 per cent in light industry and 70 per cent in heavy industry at the time of the founding of New China. After three years of rehabilitation, grain output increased from 103 million tons in 1949 to 166 million tons in 1952, 11.3 per cent above the peak annual output in history. Cotton rose from 450,000 tons to 1.3 million tons, 53.6 per cent above the highest per-liberation level. Steel went up from 160,000 tons to 1,350,000 tons, 46 per cent above

the previous record. Coal jumped from 32 million to 66 million tons, 7 per cent above the historical peak. The economy grew in the course of rehabilitation, providing the material conditions for initiating the First Five-Year Plan in 1953.

During the three-year rehabilitation, the balance of forces between socialism and capitalism changed significantly in the economic sphere. In 1952, state-owned industry accounted for 56 per cent of the nation's gross industrial output value as against 34.7 per cent in 1949; the proportion contributed by joint state-private enterprises working on state orders went up from 9.5 to 26.9 per cent in the same period; while the portion produced by private enterprises operating on their own dropped from 55.8 to 17.1 per cent. The socialist state sector and the state capitalist sector had become predominant in industry. In commerce, business transacted by state commercial departments and supply and marketing co-operatives accounted for 63.7 per cent of the turnover in wholesale trade in 1952 as against 23.9 per cent in 1950, while their proportion in retail trade rose from 14.9 to 42.6 per cent. Although private firms handled the greatest part of retail trade, a great number of them served as distributors or commission agents for state wholesale dealers and, like the private enterprises working on state orders in industry, had been channelled into state capitalism. Agriculture and handicrafts remained an economy of individual producers. By 1952 only 0.1 per cent of all peasant households had joined agricultural producers' co-operatives and only 3 per cent of all handicraftsmen had formed handicraft co-operatives. But the peasants and handicraftsmen were also to a large extent guided by state plans since the supply and marketing co-operatives supplied them with most of the articles of consumption and handled the sales of most of their products and, in the case of the handicrafts, provided most of the raw materials. All this created favourable conditions for the socialist transformation of the ownership of the means of production in agriculture and in the handicraft industry.

The victory of the socialist sector over the capitalist sector in the economy was made possible, first and foremost, by the overthrow of the Kuomintang's reactionary rule after 22 years of revolutionary wars and the establishment of the people's democratic dictatorship led by the proletariat and based on a worker-peasant alliance. There

could be no socialist economy without a government led by the proletariat. Secondly, the victory was also a result of the confiscation of bureaucrat-capital and the rise of a powerful socialist state economy. Even if we were strong politically, we could not have defeated the economic forces of capitalism, had our economic strength not been equal to the task. Thirdly, we isolated the bourgeoisie by rallying the peasants and other small producers around us, not only politically but also in the sense of giving them economic organization and leadership. Finally, we adopted the policy of utilizing, restricting and transforming the national capitalist economy, i.e., a policy of bringing into play its positive role beneficial to the economy and the people's livelihood, restricting its negative role detrimental to the economy and the people's livelihood, and carrying out its gradual socialist transformation through various forms of state capitalism. With regard to members of the national bourgeoisie, we adopted a policy of uniting with, educating and remoulding them, handling their contradictions with the proletariat as contradictions within the ranks of the people. This represented Mao Zedong's important advancement of the theory of proletarian revolution enunciated by Marx and Lenin.

The victory of the socialist sector over the capitalist sector in China's economy was also a result of our correct application of the laws governing the socialist economy, our reliance on the superiority of the socialist economic system and our proper use of the law of value and the capitalist law of surplus value. After the founding of New China, we immediately put the market under our direction and took into our hands industrial and agricultural products vital to the economy and the people's livelihood. We administered private industry and commerce by the aforementioned state capitalist measures and exercised leadership over individual peasants and handicraftsmen through supply and marketing co-operatives. At the same time, we provided capitalist industrial and commercial enterprises with reasonable profits by paying them for processing jobs and purchasing their goods at fair prices. We also guarded the interests of the peasants and handicraftsmen by a correct pricing policy. The bourgeoisie had controlled the small producers through the market and exploited them by unequal exchange, whereas we organized them and gave them leadership through the market. Correctly

handling the purchasing prices of agricultural and handicraft products and the sales prices of manufactured goods and eliminating exploitation by middlemen, we enabled the peasants and handicraftsmen to develop production and lead a better life. It has been practically proved that in a socialist revolution we must skilfully make use of the objective laws governing economic development. Otherwise, our chances of success are slim, and even if we did succeed, the cost would be high and industrial and agricultural production would suffer severely as a result.

## **2. THE SOCIALIST TRANSFORMATION OF CAPITALIST INDUSTRY AND COMMERCE**

The capitalist economy in old China was divided into two sectors: bureaucrat-capitalism and national capitalism. Bureaucrat-capitalism clung to imperialism and collaborated with the landlord class. While exploiting the workers, peasants and other working people, it also rode roughshod over the national bourgeoisie. The bureaucrat bourgeoisie and the landlord class were the targets of the new-democratic revolution. In the period of the democratic revolution we confiscated the land of the landlords as well as the enterprises owned by bureaucrat-capital. The confiscation of bureaucrat-capital had a dual significance. As bureaucrat-capital was compradore capital in the service of imperialism, its confiscation was an act of democratic revolution. As bureaucrat-capital was also monopoly capital, its confiscation was an act of socialist revolution.

National capitalism in China was oppressed by both imperialism and bureaucrat-capitalism and thus stood in contradiction with them. On the other hand, however, the national capitalists were tied to imperialism and bureaucrat-capitalism in many ways and some of them thought they might be able to depend on the latter for survival. This was why the national bourgeoisie wavered in the new-democratic revolution, showing a tendency towards the revolution as well as a tendency to compromise with the enemy. Thanks to the Party's correct united front policy in the War of Resistance Against

Japanese Aggression (1937-45) and in the War of Liberation, most members of the national bourgeoisie either supported the revolution or took a neutral stand. Many of their representatives joined the anti-Japanese national united front and later the united front against Chiang Kai-shek. After the founding of New China, our Party continued to maintain the united front with the national bourgeoisie on the basis of consolidating the worker-peasant alliance. Mao Zedong pointed out that we had two alliances: the alliance with the peasants and the alliance with the national bourgeoisie. Both alliances were very important, but the former was the basic one. In view of China's economic backwardness, we had to make use of national capitalism in the interest of the country's economic growth. That was why we adopted a policy of utilizing, restricting and gradually transforming it. Confiscation of bureaucrat-capital and step-by-step transformation of the national capitalist economy through the medium of state capitalism—this was an important policy adopted by the Party under the leadership of Mao Zedong.

Marx and Engels pointed out that under given conditions the proletariat might adopt a policy of "buying off" the bourgeoisie. After the October Revolution in Russia, the proletariat gained control of the economic lifelines of the country. Lenin proposed to buy off a section of the bourgeoisie through state capitalism in order to obtain manufactured goods for the peasants and train the proletariat in economic management. The Russian bourgeoisie, however, did not believe that the proletariat could maintain state power. They tried to sabotage the economy and finally launched an armed rebellion, compelling the Soviet government to take drastic measures to confiscate the property of all capitalists. After foreign armed intervention and internal armed rebellion were smashed, Lenin once again advanced the policy of state capitalism and announced the government's readiness to lease a number of factories and mines to foreign and domestic capitalists in order to rehabilitate and develop big industry at a faster pace. But the policy didn't work because it was rejected by the bourgeoisie. China was the first country in which the proletariat succeeded in "buying off" the bourgeoisie and transforming capitalist economy through state capitalism.

As the people's government in China did not confiscate the

enterprises owned by national capital, there was no question of leasing them to the capitalists as proposed by Lenin. Instead, state capitalism in the form of joint state-private enterprises emerged through the intermediary stage of capitalist enterprises working with raw materials supplied by the government and selling the manufactured goods to the latter or acting as dealers in state goods. As mentioned earlier, after the stabilization of commodity prices, the capitalists willingly accepted state orders which ensured their sources of raw materials, the marketing of their products and their reasonable profit. As far as the state was concerned, placing orders with private enterprises meant controlling the circulation of their products and cutting off their ties with the market and, to some extent, directing their production. The capitalists could no longer reap fantastic profits through speculation and had to produce according to state requirements. The anarchy in production, typical of capitalism, was partially eliminated. For these reasons, placing state orders with private enterprises was called an elementary form of state capitalism, a kind of capitalist economy controlled and orientated by the state. As usual, the capitalists worked for profit, but they were obliged to submit to state planning and meet the needs of the government and the people. While placing orders with private enterprises, the state regulated their lines of business by raising or lowering the profit rate according to market demand, giving a socialist character to their production.

The policy of placing state orders with private enterprises did not mean the abolition of class struggle, which remained acute in those years. In 1950, when capitalist industry and commerce had difficulties, the capitalists were willing to accept state orders but bargained stubbornly over their processing charges and the prices to be paid for their goods. In 1951, a market shortage appeared after the outbreak of the War to Resist U.S. Aggression and Aid Korea. The capitalists seized the chance to jack up prices and showed reluctance to accept processing or manufacturing jobs from the state; some even refused to carry out signed contracts seriously. In fact, they waged a struggle against the proletarian state by resorting to such illegal means as bribery, tax evasion, theft of state property, cheating on government contracts and stealing of economic information. The Party Central Committee was compelled to initiate a campaign against the "three



evils" and "five evils"<sup>1</sup> to ferret out those serving as agents of the bourgeoisie within state organs and enterprises and to smash the attacks launched by the bourgeoisie by the aforementioned means. The victory of the campaign again forced capitalist industrial and commercial enterprises into a situation where they had to accept the leadership of the socialist state economy and work conscientiously on state orders.

In 1953, China started its First Five-Year Plan for socialist construction. The socialist economy developed rapidly and significant changes took place in the balance of forces between the various economic sectors. In pre-liberation days, the equipment in bureaucrat-capitalist enterprises had been better than that in national capitalist enterprises. After the former were taken over by people's government, their equipment was improved through technical renovation. A number of modern enterprises were completed, adding to the strength of the socialist state economy and bringing its superiority over the capitalist enterprises into fuller play. With their outdated equipment and poor management, the capitalist enterprises could hardly compete with state enterprises. The government, however, did invest in the expansion and reconstruction of some capitalist factories producing urgently needed goods, and these factories became joint state-private firms in the process. Joint state-private operation pushed up production and provided the capitalists with reasonable profit. This development prompted many private factories to apply for joint operation, an advanced form of state capitalism, instead of merely working on state orders. In fact, joint state-private enterprises had appeared at the time of the founding of New China. This was because shares in many private enterprises were owned by Kuomintang officials and even war criminals and were confiscated by the people's government immediately after liberation. Small in scale and managed by capitalists or their agents, this first batch of joint-private firms were hardly

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<sup>1</sup>The campaign against the "three evils" refers to the struggle against corruption, waste and bureaucracy in government offices and state enterprises, with emphasis on the struggle against corruption, including bribery. The campaign against the "five evils" refers to the struggle against the five illegal acts of the capitalists listed in the text.

distinguishable from private enterprises. The joint state-private enterprises established later were bigger and were directed by state personnel with the capitalists or their agents taking part in management. Such enterprises were largely socialist in nature.

After capitalist enterprises switched over to joint state-private operation, the state invested in their expansion and reconstruction. Production increased rapidly and so did profits, much to the delight of the capitalists. Beginning in 1954, the state instituted joint state-private operation in the larger private factories. The growth of state-owned and joint state-private enterprises placed the remaining medium and small private enterprises in a more difficult position and they too applied for joint operation. But the state could not rebuild or expand such a large number of small and poorly equipped factories. The only solution was to shift them to joint state-private operation by each trade and reorganize them on a rational basis. Many small factories were merged as one, which was furnished with new or renovated equipment. In early 1956, capitalists from all different trades in Beijing applied for joint state-private operation on a trade-wide basis and those in other cities followed suit. The state approved their requests. This marked a decisive victory in the socialist transformation of China's capitalist industry and commerce.

Joint state-private operation by whole trades was a higher stage of development of state capitalism. It required a change in profit distribution. When an individual enterprise switched over to joint operation, it was responsible for its own profits or losses, and the profits were distributed by the shares, which were jointly owned by the state and by individuals. An enterprise making more money naturally had more profit to distribute among the shareholders. As soon as joint operations were started on a trade-wide basis and enterprises in a trade were merged or reorganized, it became impossible for each enterprise to distribute its own profits, because a prosperous firm would not have been willing to merge with a poorer one if the old practice of profit distribution were to be followed. In consultation with the capitalists, the state introduced the fixed interest system by which profits were distributed on a unified basis. The stocks and assets of each enterprise were reappraised and, on that basis, the capitalists of all enterprises drew a fixed annual interest of five per cent of their shares in disregard of profit. With the

introduction of this system, the capitalists were no longer interested in how much profit the enterprises made and gave the state a free hand to go ahead with the merger and reorganization of enterprises, and joint enterprises came under state management completely. The capitalists or their representatives were assigned suitable posts in the enterprises and became staff members. Such joint state-private enterprises, except for the fact that the capitalists were still drawing a fixed interest, were not much different from state enterprises and were basically socialist in nature. In 1966, payment of fixed interest to the capitalists was terminated. Thus all joint state-private enterprises were incorporated in the socialist state economy.

The step-by-step transformation of the private capitalist sector of the economy through various forms of state capitalism enabled private capitalist enterprises to grow in the course of transformation instead of suspending operation or slashing production. In the seven years between 1949 when New China was founded and 1956 when capitalist enterprises switched over to joint operation by whole trades, the output value of private capitalist industry nearly doubled. Meanwhile, the output value of socialist state industry increased 3.3 times. In 1956, the output value of socialist state industry accounted for 67.5 per cent of the gross industrial output value, joint state-private industry contributed 32.5 per cent and practically nothing came from private capitalist industry because it was almost non-existent. In wholesale trade, state and joint state-private commerce accounted for 97.2 per cent of the turnover and private commerce only 2.8 per cent; in retail sales, state commerce accounted for 68.3 per cent, joint state-private and co-operative commerce 27.5 per cent and private commerce only 4.2 per cent. In production growth, the state-owned sector registered the fastest rate, the joint state-private sector came second and the private sector third. The speed had to do with the quality of equipment, the enthusiasm of the workers and the rational use of the means of production. In all these respects the socialist economy enjoyed the greatest superiority.

The changeover of private enterprises to joint state-private operation by whole trades in 1956 was a decisive victory in the socialist transformation of capitalist industry and commerce. This process, which came about under the impact of a high tide in the

movement to set up agricultural co-operatives, developed a bit too fast. The vast numbers of small enterprises in industry and especially in commerce had a positive role to play in the economy. Excessive amalgamation resulted in a reduction in the variety of miscellaneous goods and a shrinkage of the commercial network, causing inconveniences to the public. When the transformation had just been completed, many joint state-private stores continued to be responsible for their own profits or losses and distribute state goods, earning the differences between wholesale and retail prices. Beginning in 1958, and particularly during the "Cultural Revolution" (1966-76), the joint state-private stores were merged with state stores or became their branches. Thus commerce was placed under state monopoly, which led to a further decrease in the variety of goods. Some stores no longer sold their specialities and, in many instances, there was a decline in the quality of service. This shows that within a given period of time, it would be a good idea to maintain diversity and flexibility in urban industry and commerce, while a premature changeover to a system of ownership by the whole people may not be in the interest of the growth of production and the people's livelihood.

### 3. THE SOCIALIST TRANSFORMATION OF AGRICULTURE UNDER INDIVIDUAL OWNERSHIP

After the completion of agrarian reform, the small peasant economy embraced the overwhelming majority of the population. The landlord economy had been eliminated together with the economy of the old-type rich peasants.\* After acquiring land, the poor peasants fared much better, and the farm hands became small individual producers. In spite of these improvements, however, the peasantry remained poor. Each household tilled only ten-odd *mu* of land with some small farm implements, and few of the households had draught animals. Labour productivity was low and accumulation meagre. The peasants were sometimes incapable of conducting

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\*As distinguished from modern capitalist farmers, the rich peasants in pre-liberation China generally engaged in feudal or semi-feudal exploitation. — *Trans.*

simple reproduction, let alone extended reproduction. Mao Zedong pointed out:

Among the peasant masses a system of individual economy has prevailed for thousands of years, with each family or household forming a productive unit. This scattered, individual form of production is the economic foundation of feudal rule and keeps the peasants in perpetual poverty. The only way to change it is gradual collectivization....<sup>1</sup>

For generations, vast numbers of peasants had looked forward to the day when they could till their own land. Once their dream had come true, they thought they were in a position to get rich by hard work. But this was not so easy because of the country's large population, insufficient arable land, frequent natural calamities and backward production conditions. Most of the peasants were not well off, and a polarization between rich and poor was inevitable. All this accounted for the dual position of the peasantry: while they were enthusiastic about developing an individual economy, they were also capable of taking the socialist road of mutual aid and co-operation. Mao Zedong pointed out in good time the need to kindle the socialist enthusiasm of the poor peasants and the lower stratum of middle peasants and lead the vast peasant masses onto the road of mutual aid and co-operation. Even in the early years of the revolutionary wars, peasants in the liberated areas formed many labour mutual aid teams and a few agricultural producers' co-operatives, which accumulated valuable experience for carrying out the socialist transformation of agriculture after agrarian reform. In Soviet Russia, experiments in agricultural co-operation were initiated under Lenin after the October Revolution. But it was not until the late 1920s and early 1930s that the Communist Party developed a suitable form of organization for the collective economy. In China, we avoided some of the detours taken in the Soviet Union by making it clear from the outset that agricultural collectivization must be carried out step by step, that it must proceed from mutual aid teams in agricultural

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<sup>1</sup>Mao Zedong, "Get Organized", *Selected Works*, F L P, Beijing, 1977, Vol. III, p. 156.

production to elementary agricultural producers' co-operatives of a semi-socialist nature and then to advanced agricultural producers' co-operatives of a socialist nature.

Labour power and farm tools were distributed unevenly among the peasants, and draught animals often had to be shared by several households. These problems were solved to some extent after the formation of mutual aid teams, for human labour could now be exchanged for the use of draught animals, and labour productivity was raised in general. But land was still owned and cultivated by each household, and the scattered patches of land presented an obstacle to efficient farming. To put the soil to better use, it was necessary to link up the patches belonging to different households. This was done through the formation of elementary co-operatives, in which the peasants, while retaining private ownership of their land, pooled it together for common use and management. Draught animals and big farm implements also remained under private ownership but were used jointly by the co-op members. Thus the income was distributed according to work as well as investments in the form of land, draught animals and farm implements. The income from land ownership was known as "dividends on land". All this meant that some members appropriated the fruits of labour of others on account of their possession of means of production. But as the elementary co-operatives developed their collective economy, they accumulated more and more public property and increased the proportion of the income which the peasants earned by work. This made it both necessary and possible to abolish the dividends on land and other means of production and change over to the advanced form of agricultural producers' co-operatives by transferring land, draught animals and farm implements to public ownership with compensation to the owners. In the advanced co-ops, the products of labour were all distributed according to work after deductions were made for the depreciation costs of the means of production, state taxes and a small amount of reserve fund and public welfare fund. The advanced co-ops were the working people's collective economic organizations of a socialist character.

The socialist transformation of China's agriculture was completed at a high speed. After the completion of agrarian reform, the Party Central Committee decided to "strike while the iron is hot" by

following it up with a mutual aid and co-operation (collectivization) movement in agriculture. The announcement of the general line for the transition period in 1953\* speeded up the process. The Party Central Committee had planned to complete agricultural co-operation in 15 years, but things came to a head in 1955. While only two per cent of the peasant households were in co-ops in 1954, the figure rose to 14.2 per cent in 1955 and shot up to 96 per cent, with 88 per cent in advanced co-ops, by the end of 1956. Most of the co-ops formed at the end of 1956, however, had not yet had time to organize collective production and distribution. Agricultural co-operation in China was actually completed in 1957.

Cautious steps were taken to carry out agricultural co-operation at a steady pace in the first few years and agricultural production rose from year to year on account of this policy. After the summer of 1955, however, the drive took on too much speed, the work method became too simplified and the measures taken were often divorced from the actual situation in certain places. Consequently, there was a decrease in the growth rate of agricultural production and in the number of livestock, beginning in 1956. In 1958 agricultural co-operatives were suddenly changed to people's communes. In many regions, the commune was hastily empowered to conduct unified production and distribution in its locality. In some counties, the communes were even combined to carry out unified distribution on a county-wide basis, a step which changed collective ownership to state ownership in actual effect. A "communist wind" was stirred up, whereby egalitarianism prevailed and human and material resources were transferred without compensation to the actual collectives to which they belonged. All this naturally dampened the enthusiasm of the peasants and cadres at the grassroots. Coupled with other reasons, it resulted in a slump in agricultural production for three successive years (1959-61). The Party Central Committee began to correct this "Left" tendency from the winter of 1958 and the spring of 1959, but it was no easy task. In December 1958, the Sixth Plenary Session of the Eighth Central Committee of the Party adopted a "Resolution on Some Questions Concerning the People's Communes", which defined the differences between socialism and

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\*Cf. pp. 18-19 of this book--*Trans.*

communism, between collective ownership and ownership by the whole people, and called for adherence to the principle of distribution according to work and observation of the laws of commodity production. In spite of this, the resolution still regarded the transition from collective ownership to ownership by the whole people as a fairly simple matter. At the Zhengzhou Conference held in February 1959, Mao Zedong criticized this tendency, known as the "communist wind", pointing out that the people's commune should practise a three-level ownership with the production brigade as the basic unit for production and distribution (also called the basic accounting unit). This provision was again found to be incommensurate with the level of productive forces and in the 1961 "Working Regulations of the Rural People's Communes (Draft)", otherwise known as the "60 Articles", the production team was generally made the basic unit for production and distribution whereas the production brigade remained the basic unit only if its output was exceptionally high and its leadership unusually strong. After the publication of the "60 Articles" in 1962, the relations of production in rural areas were stabilized and agricultural production speedily rehabilitated and expanded. Practice shows that objective economic laws are not to be violated, or else people will suffer. Problems arose in the rural areas in 1958 mainly because we expected to do too much through a change in the relations of production, including ownership, overlooking the law that the relations of production must conform to the growth of productive forces. Production resumed its growth as soon as we corrected our mistakes by readjusting the relations of production to the level of productive forces.

For a long time we were not sufficiently aware of the difficulties involved in the socialist transformation of an agriculture based chiefly on manual labour and the protracted nature of the task. We often tried to increase the size of the co-operative unit and put more property under public ownership, and we were often over-anxious to pass from one stage to another, thus causing losses to agricultural production. Socialism has to be based on large-scale socialized production. It was not easy to consolidate an agricultural co-operation that was achieved before mechanization. We should have fully recognized that what we had achieved was an immature, imperfect kind of socialism.



As a matter of fact, many of our comrades did not see that the low level of productive forces was the main obstacle to the consolidation of collective ownership in agriculture. Instead, they took the lopsided view that the trouble lay in the peasants' spontaneous tendency towards capitalism and often resorted to "cutting off the tails of capitalism" as a means of consolidating the collective economy. Contrary to their wishes, agricultural production declined and so did the peasants' standard of living, while it was becoming even harder to consolidate the collective economy.

It is universally accepted that the relations of production must conform to the level of productive forces. But people differ on the question: what is meant by the non-conformity of the relations of production with productive forces? For a long time, many of our comrades believed that this non-conformity lay in the relations of production falling short of the *requirements* of the growth of productive forces. They did not see that a change in the relations of production much too fast for the growth of productive forces would impede or even undermine the latter. Thus they held that the only kind of mistakes that could occur in the socialist period were Right and not "Left" ones, and even criticized "Left" mistakes as manifestations of a "Right deviationist line". This gave rise to the widespread idea that a "Left" deviation was better and so more preferable than a Right one. Consequently, during the "Cultural Revolution", the nation's economy was pushed to the brink of collapse. We must act on the principle that "practice is the sole criterion of truth" and review our experience by calling a spade a spade. This is the only way to avoid similar mistakes.

#### **4. THE SOCIALIST TRANSFORMATION OF THE HANDICRAFTS AND SMALL BUSINESSES UNDER INDIVIDUAL OWNERSHIP**

The socialist transformation of China's individual handicrafts also took the form of co-operation. At the time the People's Republic was founded, handicraft workshops and household handicrafts accounted for about 20 per cent of the country's gross industrial output value, while handicraft products accounted for 60 to 70 per

cent of the manufactured goods consumed by the peasants. Back in the period of the new-democratic revolution, various kinds of handicraft co-operatives, mainly supply and marketing co-operatives and co-operative groups, were formed in the base areas of the revolution to meet the needs of the army and the civilian population and break the enemy blockade. After the liberation of the whole country, handicraft co-operatives of a mass character developed with speed.

Unlike the situation in agriculture, most of the individual handicraft shops were engaged in commodity production. Raw materials and a market were most essential for their production. Thus it was necessary to organize them first in a supply and marketing network directed by the state sector of the economy to help them obtain raw materials, market their products and free themselves from dependence on the commercial capitalists, in the course of which the handicraftsmen would be won over to a collectivist outlook. On this basis they could be further organized for joint production and their shops changed over to collective ownership.

The socialist transformation of China's handicrafts went through three stages: (1) handicraft supply and marketing co-operatives; (2) handicraft producers' co-operatives; and (3) co-operative factories.

Under the direction of the state sector of the economy, the handicraft supply and marketing co-operatives supplied raw materials to and purchased products from their members, each consisting of a household or a workshop.\* These co-ops also ensured their earnings by reasonable pricing. While acting as a supplier of their raw materials and purchaser of their products, some co-ops pay them a processing charge. The supply and marketing co-ops detached handicraftsmen from commercial capital and attached them to the socialist state sector of the economy. In this sense they were semi-socialist in nature.

Since the co-ops freed their members from exploitation by commercial capital and guaranteed stable prices for their goods, the

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\*A workshop differed from a household in that the handicraftsman in a workshop employed one or two apprentices or workers whereas the labour force in a household consisted of members of the same family.— *Trans.*

latter were assured of a steady rise in production and a fair income. But as they continued to operate in their own households or workshops, they could hardly effect a division of labour or co-ordinate their work, let alone adopt modern technology. The work tools were owned by the handicraftsmen. Though quite simple, they varied in quality and so made differences in their income. Thus it was impossible to carry out the socialist principle of rewarding equal labour with equal products. To raise labour productivity, it was essential to change these handicraft supply and marketing co-operatives to handicraft producers' co-operatives, which owned both the means of production and the products and rewarded their members according to their work and the collective income. Adopting the principle of equal pay for equal work, a co-operative became a collective enterprise of a socialist nature.

In 1955, an upsurge in agricultural co-operation was followed by one in handicraft co-operation. By the end of 1956, more than 90 per cent of the handicraftsmen were organized in producers' co-operatives against only 13.6 per cent in 1954. The socialist transformation of handicrafts was basically completed.

Between 1958 and 1960, many handicraft co-operatives in China were upgraded to co-operative factories replacing hand labour with machine operation. The co-operative factories paid the workers regular wages and handed over their profits to a higher level (a united county co-operative or a united city co-operative) for disposal. The workers received wages according to a unified pay scale worked out by the higher authorities, and the principle of equal pay for equal work was basically carried out in all co-operative factories. These factories were regarded as an intermediate system between collective ownership and ownership by the whole people. In principle a co-operative factory should assume sole responsibility for its profits or losses and determine the pay for its members according to its productive and managerial performance and profit earnings. But it has been stipulated rigidly that workers of a co-operative factory should draw fixed wages and that their pay and welfare subsidies should be a little lower than those in a state-owned factory. Such rules are harmful to the growth of co-operative factories and should be changed at once.

China's co-operative factories were placed under the Handicraft

Administrative Bureau in a city or county, which has now been renamed the Second Light Industry Bureau. While state-owned factories delivered all their profits to the state, co-operative factories handed in about 50 per cent as income tax to the state and the remainder to the Second Light Industry Bureau for technical improvement in these factories and the establishment of new co-operative factories. That was why over the years such "big collective" industry in many areas has grown faster than state industry. This experience deserves careful study.

The handicrafts will exist for a long time as an aid to large socialist industry. As living standards rise, people will demand better food and clothing, and the need for manual labour will increase, not decrease. Manual labour will exist for a long time in the repair and service trades. The drive to put the handicrafts on a co-operative basis proceeded a bit too fast in 1956, and there was undue uniformity in the methods adopted. In a number of places, different kinds of handicrafts were organized in a single co-operative. This affected the variety of products and the quality of famous brands. In 1958, many handicraft co-operatives were merged as co-operative factories. While this played a positive role in mechanizing production and increasing output, it also caused a further decrease in variety and made it difficult for handicraftsmen to produce directly for the varying needs of consumers and do repair jobs as they had done before. Instead of over-concentration, it seems necessary to preserve a certain number of scattered handicraft co-operatives for manual production and permit a small number of individual handicraftsmen and small traders to peddle their wares. This will not only provide better service to consumers but create more jobs.

Until 1956, the socialist transformation of China's small stores and vendors was carried out mainly by making them retailers of goods distributed by state commercial enterprises and letting them earn the differences between wholesale and retail prices. During the upsurge of socialist transformation in 1956, the co-operation movement was extended to small stores and vendors. In fact, many small stores were incorporated into state stores. Other small stores and vendors were organized in co-operative stores or co-operative groups, while a considerable number of small stores and vendors continued to operate on their own. In the interest of consumers, the small stores

should not be over-concentrated but kept dispersed. This is particularly true of the food and service trades, the over-concentration of which would cause much difficulty to consumers. Beginning in 1958, many co-operative stores and groups were incorporated into state stores while small stores and vendors responsible for their own profits or losses were almost nowhere to be found. Thus people had to stand in long lines to get a meal or some groceries. Thanks to the flexible policy adopted since the Third Plenary Session of the Party's Eleventh Central Committee, a large number of financially independent co-operative stores and groups in the food, repair and service trades have been restored. In addition, many new collective stores and service establishments have emerged. Small privately-run stores and vendors have been playing an increasing role in stimulating commodity exchange between the urban and rural areas. They are welcomed by the people because they deal in articles suited to social needs, operate during hours convenient to customers, stress service attitude and have again made available many kinds of specialty foods that had long been lost. Such policy should remain stable. A socialist country should enrich and diversify the people's life instead of making it plain and monotonous.

The socialist transformation of commerce created another serious problem, i.e., with the disappearance of private businessmen engaged in the long-distance transport of commodities, the channels were cut off for the flow of many kinds of farm produce and side-line products as well as local and speciality products from the countryside to the cities. The supply and marketing co-operatives alone could not handle thousands of kinds of sundry goods. Many kinds of local products, including mountain products, rotted in the valleys or fields because there was nobody to carry them away. The income of the peasants dropped, and so did supplies to the cities. The output of local and speciality products in mountainous and pastoral areas fell by 50 per cent as compared with the early years after liberation, and they became unavailable in the cities for a long time. Handicrafts made of local materials in these areas were no longer produced because of sales difficulties. This experience shows that, to develop rural side-line production and increase the peasants' income and to ensure supplies to the cities, it is necessary to expand the interflow between town and country by permitting supply and marketing

co-operatives and enterprises run by communes and their subdivisions to sell their farm produce, side-line products, local and speciality products and handicrafts in the cities. It would also be advisable to organize, under the direction of local governments or people's communes, a number of transport and marketing co-operatives responsible for their own profits or losses for bringing goods to distant areas; and self-employed small retailers should be allowed to ply their trade under guidance. In this way, the interflow between town and country will not stop with socialist transformation but see a steady growth.

Since the completion of the "three major transformations", i.e., those in agriculture, handicrafts and capitalist industry and commerce, free markets have continued to exist in rural areas and city suburbs. Here the peasants exchange their products and supply limited quantities of farm produce to the urban people in addition to the bulk provided by state commercial departments. Since the peasants have private plots and are engaged in household side-lines, since the peasants are in possession of huge quantities of farm and subsidiary products with the introduction of the output-related system of contracted work responsibility, and since many production teams also have a surplus to sell after fulfilling state quotas, such free markets are needed by both the peasants and the urban people. At these markets, prices fluctuate with supply and demand and in turn regulate the latter. So long as agricultural production develops smoothly and the purchasing power of the whole society and the commodities supplied are roughly equal, free market prices will not show great variances from state prices. During 1959-61, a decline in agricultural production and an over-supply of currency resulted in sharp rises in free market prices, which affected state purchase of agricultural products. But this was basically caused by disproportions in the economy and had little to do with the free markets. Prices cannot be stabilized by the abolition of free markets, which will only make life more difficult for the urban and rural people. From 1962 to 1966, as industrial and agricultural production recovered and developed in the course of economic readjustment, prices returned to normal at the free markets.

## Chapter III

### TWO SYSTEMS OF SOCIALIST OWNERSHIP

#### 1. IMPORTANT DIFFERENCES BETWEEN THE TWO SYSTEMS

By 1956, the means of production in the country were generally placed under socialist ownership, which nevertheless took two different forms, i.e., ownership by the whole people in the state economy and collective ownership in the co-operatives. In 1958, the agricultural producers' co-operatives developed into rural people's communes. In 1967, with the abolition of the fixed interest paid to private industrialists and businessmen, joint state-private enterprises became state enterprises or, in other words, they came under ownership by the whole people. Recent years have seen the establishment of industries run by communes or production brigades and teams in rural areas, which are under collective ownership, and the appearance of new collective enterprises in cities and towns. These have been important developments in the two systems of socialist ownership since 1956.

Ownership by the whole people and collective ownership are both socialist in nature. With ownership by the whole people, the means of production belong to all the working people as represented by the state under the dictatorship of the proletariat; such means of production are essentially the public property of society as a whole. With collective ownership, the means of production belong to the working people in one economic collective or another. In China, socialist state economy occupies the leading position in the national economy. Enterprises of the economic sector under collective ownership operate with the leadership and support of the socialist state economy, and their main economic activities are geared to the needs of the state and the people through state planning and other

economic measures. The exchange of products between state and collective economy and among the economic collectives must basically conform to the principle of equal exchange. Thus in its internal and external relations, the collective economy is a socialist economy which rules out the exploitation of man by man.

Enterprises under ownership by the whole people carry out production for fulfilling the rising material and cultural requirements of society as a whole. At present, however, ownership by the whole people in China co-exists with collective ownership. The products of labour in the former economic sector, after deductions are made for whatever is consumed in production, are finally divided into two major categories: the accumulation fund and the consumption fund. The accumulation fund is handled by the state according to unified state plans and policies. The consumption fund, especially the part earmarked for individual consumption, is mainly distributed among the staff and workers of state enterprises. Members of the economic collectives, mostly the peasants, divide among themselves the income of their collectives and receive nothing from the individual consumption fund in the sector under ownership by the whole people. This results in differences in the pay for people working under the two systems of ownership. In this sense, the system of ownership by the whole people we have today is still incomplete. It cannot develop into a complete one until it becomes a unitary system covering the whole economy, ending the co-existence of the two systems, so that the country's consumption fund is distributed in a unified way among all working people and no differences arise from different systems of ownership.

The economic sector under collective ownership differs from the one under ownership by the whole people in that each economic collective is an independent owner. Each owns some means of production and the products of labour belong to its members. After deductions are made for whatever is consumed in production and for the fund of accumulation to be turned over to the state, the products are handled by the collective, which sets aside an accumulation fund for its own use and distributes the consumption fund within itself. The members of a collective have an equal right of ownership of its means of production, but different collectives are unequal in their possession of means of production. Differences in the quantity and



quality of the means of production in the possession of the collectives, plus the differences in local natural and economic conditions, give rise to wide differences in labour productivity, output and the income from a given amount of labour. Since the collectives are responsible for their own profits and losses, the pay varies from one to another, and equal pay for equal work, which is basically practised among state enterprises, is inapplicable among the collectives. Differences in the funds accumulated by the collectives determine the differences in their capacity for extended reproduction. That is why we say that the economic sector under collective ownership is a lower form of socialist public ownership.

The two systems of public ownership of the means of production account for the existence of two types of working people in socialist society: the working class and the peasantry. As industry is predominated by ownership by the whole people and agriculture by collective ownership, the working class and the peasantry are often regarded as typical of the working people in these two sectors.

The existence of the two systems of socialist public ownership in socialist society within a given period is, in the final analysis, determined by the level of development of productive forces. In China, industrial production is basically mechanized and a number of industrial departments and factories are highly mechanized and are on the way to automation. However, agricultural production is still conducted mainly by manual labour and the use of draught animals, and mechanization has begun in only a few rural areas. Because of these different levels of productive forces, industrial production generally shows a relatively strong social character, as manifest in the complex division of labour and co-operation among various departments and enterprises. This gives rise to an objective need for society and the state to own the industrial means of production directly and exercise centralized, unified leadership over industrial production. It is, therefore, necessary to set up a system of socialist ownership by the whole people for most enterprises, especially the large and medium-sized ones. On the other hand, agricultural production shows a relatively weak social character, as a considerable portion of the products of a unit is consumed by itself and by its members. In such circumstances, collective ownership facilitates production and management and brings into play the socialist enthusiasm of the

members of such a unit. It is a form of ownership that answers the need to develop productive forces in agriculture.

Owing to the differences between industry and agriculture with respect to the levels of productive forces and labour productivity, the differences between the workers and peasants in living standards cannot be eliminated within a short time. Differences in the conditions of material production and in labour productivity among collective economic units, coupled with the distribution of products within each collective, result in considerable differences in living standards among the peasants of different collectives. To effect distribution among the workers and peasants on a single basis of equal pay for equal work and thus to bring their living standards closer to each other, the right thing to do is to gradually bring up the income of the peasants to the level of the workers' wages mainly by developing agricultural production, rather than to resort to egalitarianism by lowering the workers' wages. Nor is egalitarianism the proper way to eliminate the differences in the incomes of peasants of different collectives, which should likewise be eliminated by raising the lower incomes through developing production and not by levelling off the higher ones. Peasants account for more than 80 per cent of China's population. It is obviously impossible to raise the living standard of the peasants all at once, especially of those in low-yield communes and brigades, to the level of the workers without a protracted effort to achieve a tremendous growth in industrial and agricultural production.

The major differences between the two systems of socialist public ownership, ownership by the whole people and collective ownership, naturally give rise to contradictions between them. These include the contradictions between the state and the collectives and those between the working class and the peasantry. For example, there are obvious contradictions between state and collective economy over such issues as taxation, the quantities of agricultural produce purchased by the state and the purchasing prices. If the agricultural tax levied by the state on the collectives is too heavy, it will reduce the funds accumulated by the collectives and may even affect the income of the peasants in these collectives. Excessive purchase and underpricing are also harmful to the interests of the collectives and the income of the peasants. The state must work out correct policies

with regard to taxation, the purchase of agricultural produce and the pricing of industrial and agricultural products, taking into consideration the interests of both the state and the collectives, so as to effect a rapid development of industrial and agricultural production and of the economy as a whole. Since the founding of New China, the agricultural tax has remained low, but there were years in which too much grain was purchased from the peasants, causing dissatisfaction among them. Today the "scissors" difference between industrial and agricultural prices has not yet been abolished and effective measures are being taken to change the situation step by step. The contradictions between state and collective economy are those within the ranks of the people that are based on an identity of fundamental interests. If correct policies are adopted, these contradictions can certainly be handled in such a way as to benefit the consolidation and development of the socialist economic system.

## **2. SOCIALIST OWNERSHIP BY THE WHOLE PEOPLE AT THE PRESENT STAGE**

At present, ownership by the whole people in China is not yet a unitary system of public ownership by the whole society as envisaged by Marx in his *Critique of the Gotha Programme*, but one that co-exists with socialist collective ownership. The figure of workers and staff members on state payroll comes to only 80 million while those drawing pay for their work from the collectives number more than 300 million. As stated earlier, a portion of the products turned out by enterprises under ownership by the whole people, mainly the accumulation fund, is distributed nationwide in a unified way, whereas another portion, mainly the consumption fund, is distributed among the workers and staff of the state enterprises and government institutions. The peasants in the collectives are not among the recipients in such distribution; they get only the products of their collectives. Thus these peasants enjoy only a partial and not a full right to the means of production in the enterprises under ownership by the whole people. Because of its limitations, therefore, the system of ownership by the whole people at the present stage is not a fully developed one. It will not be a fully developed one until it

becomes a unitary system of public ownership by the whole society. It may also be said that the present ownership by the whole people in China is still a state ownership, and that is why we usually refer to the economic sector under this kind of ownership as the state economy.

An important question is the tripartite relationship in the economic sector under ownership by the whole people — the relationship between the state, the enterprise and the workers. The means of production and products of the enterprises in this sector are the public property of the state representing the interests of the whole people and should, in principle, be managed by the state in a unified way. But the complexity of such an economy makes it impossible for the state to handle all of them directly. It can only leave the job to the several hundred thousand enterprises in the country. Thus each enterprise is a basic unit which handles such means of production and products. In principle, the workers of a state enterprise, including office and industrial workers, jointly appropriate its means of production and products. But in the absence of worker participation in enterprise management and measures which link enterprise performance directly with the material interests of all the workers and staff, who only receive their shares in the products on the principle of “to each according to his work”, the workers and staff can hardly see the identity of interests between them and the enterprise, let alone that between them and the state. In these complicated circumstances, what kind of relationship should be established between the state, the enterprise and the workers? This is a question to be taken seriously in an analysis of the economic sector under ownership by the whole people.

A capitalist enterprise is the private property of a capitalist or a group of capitalists, who entrust its management to a manager or governing body they elect, e.g., a board of directors, an executive board, etc. The manager or governing body is accountable to the capitalist or the group of capitalists (the joint-stock company) owning the enterprise, and is delegated power by the latter to take care of their interests. He is not accountable to the state or to the workers and employees.

An enterprise under socialist ownership by the whole people is entirely different. As the means of production and the products of the enterprise are the public property of the whole people, the leader

or the leading body of the enterprise is naturally accountable to the state, which represents the interests of the whole people, and must take care of state property, carry out the production plans formulated by the state and conduct the distribution and exchange of products according to state assignments. At the same time, the leader or leading body is, to a certain extent, accountable to the workers of the enterprise and must take care of their interests and see to a steady improvement in their livelihood along with the growth in production. The socialist state carries out the principle of "to each according to his work" among the workers, who are concerned with their personal interests as well as the interests of the state. These two kinds of interests should in principle be identical, because increases in production and state revenue will eventually result in bigger incomes for the workers. However, such an identity of interests does not manifest itself in such a direct manner as in a collective enterprise, which is responsible for its own profits and losses, but in a roundabout way, and is not readily seen by the workers. If, when a well-managed enterprise earns extra profit, the state does not allot a part of such profit to this enterprise, and if this enterprise does not reward those workers who work exceptionally well, then it will be impossible to closely integrate the interests of the state, the enterprise and the workers or to steadily improve the workers' livelihood as production grows; the workers will not concern themselves with the interests of the enterprises and the state, but treat them with the mentality of wage labourers. In such a situation, the superiority of socialism will not be brought into play.

The managerial system in China's economy, borrowed from the Soviet Union in the 1950s, lays undue emphasis on centralized leadership by the state. The leader or the leading body of an enterprise is accountable for its performance only to the state but not to the workers of the enterprise. Disregarding the actual performance of an enterprise and the actual amount of accumulation fund it provides to the state, all the profits gained by the enterprise is delivered to the state and there is no change in the pay of the workers and staff. The enterprise carries on production completely in accordance with state plans, and the workers contribute labour in accordance with the stipulations of state plans. The enterprise enjoys no decision-making power, and the workers have no right to the

management of the enterprise or any extra benefit from its production increases. With the enterprise showing no interest in the state, and with the workers showing no interest in their enterprise, it is impossible to fully embody the superiority of the socialist system. Although the Central Committee of the Chinese Communist Party has repeatedly called for broadening the workers' democratic rights and for their participation in enterprise management, little has been achieved because no specific measures have been taken or the measures adopted are mere formalities.

With such a system of economic management, all the economic operations of an enterprise are dictated by state plans. It has to depend on state allocations for investment, even for technical innovation funds, and must turn over all profits to the state. It has no direct contact with the market because all its products are purchased and marketed by state commercial departments, and the transfer of workers and staff members from one enterprise to another is up to the labour departments of the government. In other words, an enterprise has no control over human, material and financial resources or over the procurement of materials, production and marketing, and is hardly able to play its proper role as a basic unit of economic management. This makes it difficult for an enterprise to take the initiative in improving technology and management, raising labour productivity and thus increasing its contributions to the state and the people. It can hardly encourage the workers, from the angle of their material interests, to increase production by achieving the maximum economic results with the minimum expenditure of labour and material resources, or raise their own standard of living by increasing the income of the enterprise. If such a system of management is allowed to develop along its own lines, it will be impossible to bring into play the superiority of socialism and, what is worse, economic development will be inferior to that under capitalism.

With the enterprises deprived of their right to make appropriate decisions and the workers of their democratic rights, bureaucracy thrives in leading organs and among leading cadres of the state and the enterprises, resulting in the arbitrary direction of affairs in disregard of objective economic laws and, consequently, inestimable losses to the state and the people. In such circumstances, the leading

cadres of an enterprise and its workers and staff have no alternative but to follow the orders and directives from the higher authorities. This dampens their initiative and creativeness, preventing them from giving play to their wisdom and bringing up ideas of improving business operations. Yet the superiority of the socialist system lies precisely in that the people throughout the country, as their own masters, are able to give wide scope to their wisdom and that the leading state organs, enterprises and working people can achieve their common aims through concerted efforts. Therefore, we must fundamentally reform this irrational system of economic management so that the leading state organs, the enterprises and the working people may jointly develop the superiority of the socialist system to a full extent by discharging their clearly defined duties.

For a long time, we regarded the economic sector under ownership by the whole people as a clock driven by a single spring mechanism, failing to see it as an organic body composed of many parts and cells. In this organic body, while the nerve centre functions as the command headquarters, every part, every cell, should have its own vitality and should be able to operate by itself. Whenever it is impaired, it should be capable of readjustment either by itself or jointly with other organs or cells without having to go through the nerve centre. If none of the cells could function independently, the whole body would cease to exist. The economic sector under ownership by the whole people will become a lifeless robot if we exercise too rigid a control over the economic operations of the enterprises instead of letting them readjust themselves by virtue of their own vitality. The economic fabric of society is far more complicated than the human body, and its sound development is impossible without the proper functioning of the enterprises, which are the basic components, and of the workers, who are the cells.

Seeing the drawbacks of the existing system of management of the sector under ownership by the whole people, some comrades doubt the superiority of such an economy as if it were inferior to the sector under collective ownership, and question the superiority of the socialist system as if it were inferior to capitalism. This is completely wrong. The economic sector under ownership by the whole people represent the common interests of the people throughout the country, conforms to the needs arising from the development of

modern industry which is of a strong social character, and is the leading force in the nation's economy. It cannot be substituted by the sector under collective ownership in any of these respects. Of course, collective ownership has its own advantages, which are obvious in partially self-sufficient agricultural production which depends mainly on manual labour and natural conditions. It is also preferable in some types of handicrafts, commerce and service trades, where it cannot be substituted by enterprises under ownership by the whole people. The socialist system guarantees the overall arrangement and rational use of the human, material and financial resources across the country. Given good management, it is capable of combining the interests of the state, the enterprise and the worker so as to bring the enthusiasm and creativeness of all three into full play. We failed to achieve this in the past because, lacking a sufficient understanding of the objective economic laws of socialism, we adopted a mechanical, dogmatic approach to the socialist economy and handled it in a way which prevented a full manifestation of its superiority. In the eight years after the founding of New China, we enabled the new-born socialist economy to triumph over the capitalist economy in the country by an overwhelming strength, compelled the capitalists to accept the socialist transformation of the system of ownership, and achieved a much higher rate of industrial and agricultural growth than in capitalist countries. Did not all this prove the superiority of the socialist system? Owing to the mistakes in our planning and then the sabotage caused by Lin Biao and Jiang Qing counter-revolutionary cliques during the "Cultural Revolution", several ups and downs appeared in China's economy in the two subsequent decades, resulting in slow progress. The trouble did not lie in the socialist system, but in the mistakes in our work. So long as we grasp and act according to the objective economic laws of socialism, protect the enterprises' decision-making power and the workers' democratic rights, correctly handle the relationship between the state, the enterprise and the worker and thus enhance the initiative of all three, the superiority of the socialist system will become fully manifest.

The socialist state sector occupies the leading position in the entire national economy, but it is not the only economic form. According to statistics for 1981, there were 84,000 industrial enterprises under



ownership by the whole people, making up 22 per cent of the total number of China's industrial enterprises and 78.3 per cent of China's total industrial output value. In addition, there were about 300,000 industrial enterprises under collective ownership, 200,000 of which run by communes and production brigades and teams. Obviously, the state-owned enterprises cannot monopolize everything. If they try to take everything in their own hands, they will cause trouble to the development of production and too much inconvenience to the people's life. Hu Yaobang pointed out in his report to the Twelfth National Congress of the Party,

At present, the state sector alone cannot and should not run all handicrafts industries, building industry, transport, commerce and the service trades in the cities and towns; a considerable part should be run by the collective.<sup>1</sup>

So, in improving enterprise management and reforming the economic management system, we should devote much effort to developing socialist collective economy in order to meet the growing material and cultural needs of the urban and rural people.

### **3. SOCIALIST COLLECTIVE OWNERSHIP AT THE PRESENT STAGE**

Collective ownership is one of the basic forms of socialist public ownership. China's peasants, who account for 80 per cent of her population, still live under a system of collective ownership which is predominant in agriculture, the foundation of the economy. The rural collectives, i.e., the people's communes, generally follow a three-level system of ownership of the means of production--ownership by the commune, by the production brigade and by the production team, with the last as the basic form; within the economic organizations under collective ownership, however,

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<sup>1</sup>Hu Yaobang, "Creat a New situation in All Fields of Socialist Modernization", *The Twelfth National Congress of the CPC*, FLP, Beijing, 1982, p. 28.

varied forms of the production responsibility system are in force; production is carried on mainly by manual labour and the use of draught animals. Thus collective ownership in China today is only a lower form of socialist public ownership.

Collective ownership is necessary in China's agriculture because of the extremely low level of productive forces, the varying farming conditions and the wide gaps in labour productivity between different areas, communes and production brigades and teams. The state can neither raise the pay in low-yielding teams to that in high-yielding ones nor reduce the latter. If it were to "take from those who have more and give to those who have less" as a means to even up the incomes, the high-yielding teams would be unwilling to strive for still higher yields while the low-yielding ones would not try to catch up. This would seriously hamper the growth of agricultural production.

Although the contracted responsibility system now widely adopted in China's rural areas represents a change in the relations of production, it has not abolished or negated rural collective ownership. Compared with industry, there is no basic need for agricultural production to organize complex division of labour and co-operation for producing the same products. The system of taking the production team as a basic unit where the peasants engage in common labour and get paid according to a unified distribution system holds back labour productivity and hampers the initiative of the commune members. With manual operation as the main form, some farm jobs (such as leveling farmland and building water conservancy projects) are suitable for collective labour under unified management; other jobs (such as ploughing, weeding and harvesting) are best done by individual, separated operations either on a household basis or with several households voluntarily organized as a team. During the movement of agricultural co-operation, the system of "fixing output quotas on a household basis" and that of "contracting jobs on a household basis" were tried out in some areas in order to raise labour productivity and achieved remarkable results. These systems, however, were repudiated as "revisionism" and "taking the capitalist road" and were soon rescinded under the influence of "Left" guidelines and of rigid adherence to a fixed model of collective economy.

After the Third Plenary Session of the Party's Eleventh Central Committee held in December 1978, the policy of setting things right and emancipating the mind enabled the peasants to select by their own choice systems of production and distribution suited to their own actual conditions. As a result, many forms of the production responsibility system emerged rapidly and agricultural production and peasants' income in many areas markedly increased after a mere two or three years. These experiences should be summed up and the responsibility system continued and perfected.

The implementation of various forms of the agricultural production responsibility system, which has greatly promoted labour productivity, not only makes intensive cultivation possible but also releases a lot of labour force for use in developing a diversified economy. In the past few years, many specialized households have appeared in the rural areas, breeding poultry, pigs and fish, growing fruit trees, and so on. Previously, each household had to take part in collective production while at the same time breeding some pigs and poultry, so labour productivity was very low. Now, with one specialized household breeding dozens of pigs and hundreds of chickens, labour productivity has doubled and redoubled, hastening the upgrading of the natural economy in the rural areas to commodity production. Specialization of production will naturally promote partnerships between specialized households. For example, units have been set up to provide feed, young stock, epidemic prevention and selling outlets. Usually, these are trans-brigade or trans-commune units jointly operated by the state, collectives and specialized households. Acting in accordance with contracts, they have only economic relations with one another, without any administrative jurisdiction at all. Thus, China's rural economy is now able to increase the portion of commodity production and expand commodity exchange step by step; in due course, it will establish an economic structure suited to commodity production. This is a new subject of study for Chinese economists.

Why do we say that the agricultural responsibility system and production specialization do not abolish collective ownership or deviate from the socialist road? This is because farmland remains the property of the collectives and the irrigation facilities and much large-type agricultural machinery are still owned by the production

teams, brigades or communes, in which case they can serve the commune members in a planned way. In addition, the communes and production brigades and teams work out unified plans for the development of production and guide the production activities of the commune members; help them to obtain supplies of seeds, chemical fertilizer and many other means of production; make arrangements for fulfilling the tasks of unified state purchases and purchases by assigned quotas; and help the commune members to solve problems involved in the selling of their agricultural and side-line products. The communes and production brigades and teams run many enterprises, and in some areas the income of these enterprises has surpassed that gained from agricultural production. As a result, part of such income may be used to support agricultural production, run collective welfare undertakings and help the needy peasants. Thus, the communes and their subdivisions continue to play an important role in the rural areas. Collective economy is certain to grow and expand under the new circumstances, and new organizational forms will emerge.

At present, the economic sector under collective ownership exists as an objective need independent of man's will. It has promoted the growth of agricultural productive forces. Without it, it would have been impossible to level so much farmland, undertake large-scale capital construction in agriculture including water conservancy projects, and achieve initial farm mechanization in some areas. Collectivization of agriculture has removed the scattered nature of agricultural production to some extent, which in turn has facilitated state planning and arrangement of agricultural production and state purchase of agricultural produce, consolidating the economic basis of socialism in China. However, the managerial methods for economy under collective ownership must be in keeping with its inherent economic characteristics. Since collective economic units are responsible for their own profits and losses, they have a right to arrange their production according to local conditions and with some reference to state targets after they sell major agricultural products to the state by assigned quotas. The state is obliged to respect the collectives' right of ownership and then right to manage their own affairs. On the condition of completing its sales to the state, a collective may decide for itself what to produce and how to produce.

Owing to the varying climatic and other natural conditions, the communes and production brigades and teams must develop such lines of production as are most beneficial to the state and to themselves. For a long time, some of our comrades were not clear about the distinctions between collective ownership and ownership by the whole people and applied to the economic sector under collective ownership methods appropriate only to the sector under ownership by the whole people. Showing no respect for the collective economic units' right of ownership and their right to manage their own affairs, these comrades issued to them binding instructions such as on the growing of crops, and forced them to obey unreasonable orders. All this caused tremendous losses to agricultural production. Of course, the government organs at various levels should not give the people's communes a totally free rein, but should guide and co-ordinate production in various collectives in light of state plans and local conditions, taking into consideration both the needs of the state and the interests of the collectives. The same thing applies to the relationship between the people's communes and their subdivisions – the production brigades and teams.

Since the collectives are responsible for their own profits and losses, they should be encouraged to engage in profitable side-line occupations, including the production of high-priced goods, so as to increase the income of their members and improve their livelihood and augment the funds for extended reproduction. In doing so, of course, they must not violate state policies and laws or go against state plans, which should nevertheless be highly flexible. If such production meets the needs of the state and the people, it should be protected and not restricted by the government. If not, it should not be banned by government orders. Instead, the collectives should be guided to change their lines of production by such economic means as price and tax policies. The collectives may also show certain capitalist tendencies, such as commercial speculation and profiteering in violation of government policies, laws and decrees. Such tendencies should be prevented mainly through sustained socialist education among the peasants and better market control, and should not be banned by legal means except in serious cases. They should not be used as an excuse for an indiscriminate prohibition of the legitimate economic undertakings of the collectives, in the same way

as one should not give up eating for fear of choking.

The majority of the collectives in China are still unable to meet the many-sided needs of the peasants. The peasants should therefore be allowed to supplement their needs, increase their cash income and meet the needs of the urban residents and other rural people by working the plots for their private use, raising animals and poultry, gathering medicinal herbs, weaving straw products, etc. Even members of better-off collectives should be allowed to work their private plots in spare time with the assistance of their family members. And it is all the more necessary to encourage the peasants to produce things badly needed by the non-farming population. Actually, some of the important food supplies to the cities, such as pork and eggs, come mostly from the peasants' side-line production. To meet the needs of the urban population, we should not only support the rural household side-line production, but also, in some areas where conditions are favourable, help the specialized households in developing their undertakings. Will all this lead to the emergence of capitalism? We need not worry about this possibility. The entire national economy is under the leadership of the socialist state economy; collective economy still occupies a dominant position in the rural areas; even when commodity production is developed, rural commerce will still be under the leadership of state commerce and the supply and marketing co-operatives; and we will do necessary and practical political and economic work -- all these will ensure that China's rural areas will advance along the socialist road.

Collective ownership is highly preferable in China's agriculture and quite favourable to the urban handicrafts and many service trades in the country. Even today it is necessary to extend this system of ownership to some urban trades. Beginning in 1958, influenced by "Left" ideas, premature steps were taken to change many handicraft producers' co-operatives to co-operative factories and to incorporate co-operative shops into state shops, resulting in a decrease in the variety of handicraft goods and inferior service in the service trades. This caused inconveniences to residents in the cities and took away job opportunities from young people there. Afterwards, we set up a great number of neighbourhood enterprises in cities. They grew and prospered speedily because, being responsible for their own profits and losses, they closely linked their interests with those of their

members. In some cities, however, the better-run neighbourhood enterprises were placed under ownership by the whole people, and their members began to receive fixed wages just like workers on state farms, while all the profits were turned over to the state. The original advantages of these collective enterprises disappeared and the street neighbourhoods were in effect discouraged from setting up any more enterprises. In some cities it was stipulated that members of the neighbourhood enterprises under collective ownership should get lower pay and fewer benefits than the workers and staff of the enterprises under ownership by the whole people, which naturally hindered the development of these collective enterprises. To many of our comrades, it seemed that after the basic completion of the transformation of individual economy into collective economy, no more collective enterprises should be set up. They did not understand that since manual labour would continue to exist in China for a long time, collective economy would continue to show great advantages in the sphere of operation of manual labour and would be, like the economy under ownership by the whole people, part of the foundation of China's socialist economic system. The view that collective ownership is inferior to ownership by the whole people in all circumstances does not agree with the law that the relations of production must correspond to the level of development of productive forces.

In the country as a whole, agricultural production is based mainly on manual operation and the level of productive forces is extremely low. The mechanization and modernization of agriculture cannot be accomplished in a short time merely with the funds accumulated in agricultural production. In order to increase accumulations at a faster rate, the method of combination between industry and agriculture and between town and country has been adopted in many areas. With the help of urban industry, enterprises run by communes and production brigades and teams have set up, and they have yielded good results. This not only promotes agricultural development but also helps to consolidate and strengthen the socialist collective economy and to narrow the difference between city and countryside.

By now the overwhelming majority of people's communes and production brigades throughout the country have set up their own

industrial and other enterprises with a labour force accounting for about 10 per cent of the total manpower in the people's communes. By running these enterprises the communes and their subdivisions have accumulated more funds, a considerable portion of which is being spent on farmland capital construction and on farm machines while another portion goes to poorer production brigades and teams as financial assistance. Where these enterprises grow fast, agricultural production grows fast too and the commune members receive a higher income. Workers in the commune and brigade enterprises, except for a very limited number of technicians and highly skilled workers, receive roughly the same pay as other commune members. A smaller portion of the profits of these enterprises is turned over to the state as tax, another portion is set aside to finance agricultural production, while the bulk is used for extended reproduction in the enterprises. The use of any part of the profits for the establishment of a new enterprise has to be approved by the higher authorities in order to guide the investment along proper lines and avoid any blind development out of keeping with state requirements.

The all-round development of farming, forestry, animal husbandry, side occupations and fishery and the growth of commune and brigade industries will be accompanied by a change in the economic structure of the rural people's communes. They will go beyond agriculture to engage in industry and commerce. This will call for closer co-operation between communes and brigades and teams and between state and collective economy, which means an economic structure similar to the agricultural-industrial combines in some other socialist countries. Thus a new socialist countryside will gradually appear in China, a countryside based on agriculture and featuring the combination of agriculture, industry and commerce.

Apart from the economic sectors under ownership by the whole people and under collective ownership, we should allow the individual economy to develop, within limits prescribed by law, as a supplement to the urban and rural economy. Though different in character, these three sectors can combine with one another and they are interpenetrable. At present, many small state-owned enterprises (especially commercial and service establishments) in the cities are contracted to their employees for collective or individual operation. After paying various taxes and fees for the use of fixed assets, these



employees divide the profits among themselves, partly according to the distribution principle practised in the economic sector under the collective economy. In rural communes and production brigades and teams, there is the practice of fixing output quotas and that of contracting jobs — both on a household basis; specialized jobs are done on contract, and household side-lines are encouraged and supported. All this means a partial utilization of the initiative of the peasants for individual operations within the framework of the collective economy. In China's socialist economy, varied economic forms and varied forms of operation will co-exist for a long time to come. Each having its own advantages in specific respects, the state, collective and individual economic sectors occupy different positions and have different roles to play; all are indispensable. While ensuring the leading position of the state economy, we should endeavour to develop the varied economic forms in the interest of the growth and prosperity of China's national economy as a whole.

## Chapter IV

### THE DISTRIBUTION SYSTEM UNDER SOCIALISM: “TO EACH ACCORDING TO HIS WORK”

#### 1. LABOUR IN A SOCIALIST SOCIETY

Socialist public ownership of the means of production is the foundation of the socialist relations of production. However, an analysis of public ownership alone does not provide a thorough explanation of the characteristics of such relations. To clarify these characteristics, it is necessary to examine the manner in which labourers and the means of production are united under the socialist system.

Marx holds that, whatever the social form of production, labourers and the means of production always remain factors of it. He says, “For production to go on at all they [labourers and the means of production] must unite. The specific manner in which this union is accomplished distinguishes the different economic epochs of the structure of society from one another.”<sup>1</sup> The three systems of class exploitation known to history differ from one another not only in the ownership of means of production but, more importantly, in the manner in which the labourers and the means of production are united. In his *Dialectical and Historical Materialism*, Stalin points out that the basis of the relations of production under the slave system is full ownership by the slave owner of the means of production as well as the worker in production, the slave; the basis of the relations of production under the feudal system is full ownership by the feudal lord of the means of production and his partial ownership of the worker in production, the serf; the basis of the relations of

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<sup>1</sup>Karl Marx, *Capital*, FLPH, Moscow, 1957, Vol. II, p. 34.

production under the capitalist system is ownership by the capitalist of the means of production, but not of the worker in production. Marx says, "The capitalist mode of production ... rests on the fact that the material conditions of production are in the hands of non-workers in the form of property in capital and land, while the masses are only owners of the personal conditions of production, of labour power."<sup>1</sup> What distinguishes the capitalist relations of production from those under slavery and feudalism is, first and foremost, the complete freedom of the labourer from personal bondage. Although he doesn't possess any means of production, he enjoys freedom of the person, freedom to sell his labour power. A capitalist is an owner of the means of production and is in a position to buy labour power as a commodity and unite it with the means of production for the production of surplus value.

Under the socialist system, the means of production are the public property of the whole society or that of a collective, i.e., property owned jointly by a group of working people. The labourers are the owners of the means of production and are no longer separated from them. Unlike labourers in a capitalist society who sell their labour power, they jointly own, manage and use the means of production and engage in production together. Society requires that all its able-bodied members contribute their work ability to it or to their collectives, and assigns them jobs commensurate with their abilities. In this sense, the socialist system unites labourers with the means of production in a manner similar to the communist mode of production.

However, socialist society is one that has just emerged from the womb of capitalist society. It is not yet free from the traditions or birthmarks of capitalism. In capitalist society the labourers are wage workers who sell their labour power to, and are exploited by, the capitalists. The conversion of the means of production into public property under socialism cannot immediately eliminate the labourer's possession of his own labour power. A labourer continues to regard labour as a means of earning a living and cannot possibly work for society without consideration of compensation. If he is to work for society irrespective of compensation, society must provide

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<sup>1</sup>Karl Marx, *Critique of the Gotha Programme*, FLP, Beijing, 1976, p. 18.

him and his dependents with all the necessary means of subsistence free of charge. In other words, society must bear all the costs of the reproduction of labour power. Obviously, this is something beyond the capability of a newborn socialist society in which the productive forces are not yet fully developed or, in the words of Marx, there is not yet an abundant flow from "the springs of co-operative wealth". Since society is still unable to provide its members with a free supply of all necessary means of subsistence, it can only pay each labourer on the basis of the quantity and quality of labour he performs, leaving it to him to work out his family budget. Besides, the division between mental and physical labour continues to exist in a socialist society, while the needs of highly-educated mental workers in their work and daily life call for special attention. All this indicates that labour power remains partly a personal possession of the labourer. Marx says in his *Critique of the Gotha Programme* that socialist society tacitly recognizes the unequal productive capacity of the worker as a "natural privilege". This means a tacit recognition of the worker's ability as a personal possession.

At the stage of socialism, therefore, the means of production and labour power are united in a manner different from that in a capitalist society or in the higher phase of communism. On the one hand, the working people have become joint owners of the means of production and the relationship between the labourer and society becomes one between the individual and the collective owning the same means of production. In other words, there is no longer a relationship between two different owners of two different things. On the other hand, since society has to tacitly recognize unequal productive capacities as natural privileges of individuals, which presupposes the exchange of an equal amount of work for an equal amount of products between society and the individual labourer, society and the individual worker remain, in this sense, different owners. In such circumstances, the means of production are united with labour power in a unique manner: while all the working people form a productive community by the use of jointly-owned means of production, each person receives pay on the basis of the quantity and quality of his labour.

It is not surprising that the personal possession of labour power, a birthmark of the old society, should partially remain after the means

of production become public property. Lenin says, "...Remnants of the old surviving in the new confront us in life at every step, both in nature and in society."<sup>1</sup> Engels says that in the course of development of a thing, "...all differences become merged in intermediate steps and all opposites pass into one another through intermediate links".<sup>2</sup> The partial possession of labour power by the individual is precisely the "intermediate link" between capitalism and mature communism. It indicates that the communist manner of uniting the labourer with the means of production remains immature and imperfect at the socialist stage. The conversion of individual labour into social labour has to be effected through a "medium", a unique form, and that is the exchange of an equal amount of work for an equal amount of products after the deductions for common funds. This is an important hallmark distinguishing socialism from communism as well as a manifestation of the transitional nature of the socialist system.

Public ownership of the means of production and partial possession of labour power by the individual constitute a contradiction which gives socialist labour a dual nature. On the one hand, because the labourer is one of the joint owners of the means of production, his labour takes on a direct social character. On the other hand, because labour power still belongs partially to him as an individual, his labour remains a personal means of livelihood. This dual nature of socialist labour is discernible everywhere in our life. It manifests itself in all socialist economic processes—production, exchange, distribution and consumption—and is reflected in the mind of the labourer.

The most striking expression of the dual nature of socialist labour, however, is the distribution of products. Under the socialist system, social products are already the public property of society or of the collectives and are distributed by society. Some of these are reserved for the common needs of society, while the rest are distributed among the individual labourers on the basis of the quantity and quality of their labour for their daily needs and those of their families, giving rise to the individual ownership of the means of

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<sup>1</sup>V. I. Lenin, *The State and Revolution*, FLP, Beijing, 1976, p. 120.

<sup>2</sup>Frederick Engels, *Dialectics of Nature*, FLP, Moscow, 1954, p. 282.

subsistence. Labour in the first category is performed by the labourer for society, while labour in the second category is performed by him for himself. The division between labour performed for society and that performed for the labourer is an expression of the dual nature of socialist labour in the field of distribution. This dual nature will disappear in the higher phase of communism, at which point society will bear all the costs for the reproduction of labour power and the living expenses of every member of society. The labourer will no longer work for his pay, and labour will be not only a means of subsistence but also a primary need of life. Of course, even then a part of social products will still have to be distributed among the labourers for their personal use, but such distribution will be disassociated from the measure of labour and will no longer be an exchange of an equal amount of work for an equal amount of products. As a remnant of the old society, the possession of labour power by the individual will disappear completely.

It will take a long time for the dual nature of socialist labour to fade out. While the development of the socialist mode of production may allow for relatively quick changes in material conditions of production, the task to change the human conditions of production, i.e., the conditions of human labour, will be more arduous and time-consuming. Production must be expanded to cover all the needs of labourers and their families; education must be developed to eliminate the division between mental and manual labour; working hours should be shorter and labour less intensive so that labour will become a want of any healthy person. The dual nature of socialist labour is by no means immutable throughout the socialist stage. The steady development of material production and the corresponding changes in people's intellect and morality will weaken the dual nature of socialist labour. The change will not take place overnight. There will have to be an accumulation of quantitative changes and a number of partial qualitative changes before a complete qualitative change comes about.

For a long time, our study of the socialist economic system suffered from a failure to examine it by the characteristic manner in which the labourer and the means of production are united. After much consideration, I have come to the conclusion that when we look at the differences in nature between socialism and the higher

phase of communism, we should get to the bottom of the question and should never be satisfied with an analysis of the differences between the forms of distribution in these two phases of communism, i.e., "to each according to his work" and "to each according to his needs". In the *Critique of the Gotha Programme*, Marx says, "The prevailing distribution of the means of consumption is only a consequence of the distribution of the conditions of production themselves; the latter distribution, however, is a feature of the mode of production itself."<sup>1</sup> The "conditions of production" he speaks of here refers not only to the material conditions of production, that is, the means of production, but also to the human conditions of production, i.e., those of labour power. The capitalist mode of production is based on ownership of the material conditions of production by non-labourers and possession of the human conditions of production by labourers. We should also analyse the socialist relations of production from such an angle. In the past, many economic theoreticians brushed aside the question of the human conditions of production, i.e., the possession of labour power by the individual, as if such a possession would disappear altogether with the change in the ownership of the means of production. Some people even denied that the question of who possessed labour power existed. This line of thinking led to a confusion between the different socio-economic formations in history and the nature of the lower phase of communism with that of the higher phase. In my opinion, this prevents a more thorough examination of the question of "to each according to his work".

Some comrades maintain that if we recognize the partial possession of labour power by the individual, we must at the same time recognize labour power as a commodity. This is incorrect. The former does not necessarily mean the latter. In the concluding phase of feudal society, urban craftsmen possessed labour power, but because they owned their means of production, their labour power did not become a commodity. Labour power becomes a commodity only in a capitalist society where the labourer, deprived of his means of production, is compelled to sell his labour power. In a socialist society, the means of production are jointly owned by the labourers,

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<sup>1</sup>Karl Marx, *Critique of the Gotha Programme*, FLP, Beijing, 1976, p. 18.

obviating any need for labour power to become a commodity.

## 2. "TO EACH ACCORDING TO HIS WORK" AN OBJECTIVE NECESSITY

Private ownership of the means of production is abolished under socialism, and so is exploitation of those who possess only labour power and not the means of production by those who own the means of production. However, unequal productive capacities still have to be tacitly recognized as the natural privileges of individuals and labour as a means of livelihood. Hence the principle of "to each according to his work".

In China, the system of "to each according to his work" was gradually established during the development of the socialist economy following the proletarian seizure of power. Several systems of ownership of the means of production were in existence immediately after the founding of New China. The capitalist system of distribution had to continue in capitalist enterprises, where the surplus value created by the surplus labour of the labourers were given gratis to capitalists as profit, while the value created by their necessary labour was converted into wages. In appearance wages were paid according to productive capacity, but in essence they were the value or price of labour power. The wage system in China's capitalist enterprises was extremely irrational. The managerial personnel running the factories on behalf of the capitalists and the engineering staff were paid high salaries while the labourers doing heavy manual work received a meagre pay. In the socialist state enterprises, the "labour contract system", the "indentured labour system" and other forms of feudal exploitation were abolished while the old wage system was kept intact. As production developed, wages of manual labourers were steadily raised, bridging irrational gaps. The First Five-Year Plan initiated in 1953 included a new eight-grade wage system based on the principle of "to each according to his work" as well as a post-rank salary system for government and managerial personnel who are paid according to their ranks and posts. In the interest of greater unity with managerial personnel from pre-liberation days, the government did not subject them to the new



pay scale, but paid them "retained salaries" which were relatively close to their pre-liberation income and higher than the regular sums for their ranks and posts. Such salaries were not entirely based on the principle of "to each according to his work" but were paid partly as a special consideration.

Until 1953, the supply system in use during the revolutionary wars remained so among cadres from the Liberated Areas. During the war years, material hardships made it impossible for the overwhelming majority of cadres to bring their dependents along, and the governments in the Liberated Areas guaranteed only a minimum supply of daily necessities with insignificant differences in rations for cadres at different levels. The supply system played an important role in uniting officers and men, the army and the civilians, in the joint endeavour to win the revolutionary wars. Victory brought the cadres back to the cities to rejoin their families, with major changes in their everyday life and work. The supply system gave way to a salary system in 1953.

Marxists hold that in a communist society, consumer goods will be distributed according to need in the interest of a wholesome development of body and mind in all members of society. In the socialist period, however, means of personal consumption can only be distributed on the principle of "to each according to his work". Lenin says, "From capitalism mankind can pass directly only to socialism, i.e., to the social ownership of the means of production and the distribution of products according to the amount of work performed by each individual."<sup>1</sup>

Practising the system of "to each according to his work" in a socialist society means recognition of the material interests of the individual, a principle which provides for unequal pay for labourers with unequal productive capacities and unequal labour contributions. At this stage, it is essential to provide the working people material as well as moral incentives. The greater one's ability and contribution, the greater one's pay. In this way, the interests of the individual and those of the collectives (the enterprise, the commune or one of its subdivisions) and the state merge in a way to foster

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<sup>1</sup>V.I. Lenin, "The Tasks of the Proletariat in Our Revolution", *Collected Works*, Progress Publishers, Moscow, 1964, Vol. 24, pp. 84-85.

enthusiasm among the working people and stimulate the development of productive forces. The present differences in pay will not exist indefinitely. Recognition of these differences is a means of achieving a high-speed growth of productive forces, which will make it possible to narrow them down and eliminate them altogether. Egalitarianism, meaning setting salaries regardless of quantity and quality of work, would dampen people's enthusiasm and hinder the development of productive forces, making it difficult to implement the gradual transition to the practice of "to each according to his needs".

In the socialist period, it is still impossible to resolve the contradiction between public ownership of the means of production and partial possession of labour power by the individual. For this reason, it is impossible to abolish the system of "to each according to his work" as a form of distribution of consumer goods among individuals, something determined by the distribution of production conditions. It should be fully recognized that, for the present, the principle of "to each according to his work" marks a big step forward and is highly useful. This principle also has certain limitations. Affirming its historical inevitability, both Marx and Lenin point to its "defects" which are nevertheless unavoidable in the lower phase of communism. They note that the principle means both equality and inequality because, firstly, ability, and therefore, pay, varies from individual to individual, and secondly, the number of one's dependents, and therefore, the standard of living, varies from family to family. Since this inequality plays a positive role in the development of productive forces at present, we must defend the principle which gives rise to such inequality, i.e., "to each according to his work". As productive forces develop, the pay scale should be steadily raised with emphasis on the lower income brackets, and social benefits should be expanded as much as possible to achieve the final aim of a good life for all.

Both Marx and Lenin point out that the principle of "to each according to his work" lies within the narrow confines of "bourgeois right". Placing undue emphasis on material incentives to the point of neglecting politico-ideological education may cause some people to adopt an incorrect attitude towards the relationship between the state, the collective and the individuals, and the relationship between

long-term and immediate interests, ultimately encouraging bourgeois individualism. Adherence to the principle of "to each according to his work" should be coupled with regular socialist education among the working people and advocacy of a communist attitude towards labour so that people will see the need to subordinate their personal interests to those of the collective and immediate to long-term interests. Material incentives and politico-ideological education must supplement each other. Grasping one while abandoning the other will do harm to socialist construction.

### **3. WAGES IN ENTERPRISES OWNED BY THE WHOLE PEOPLE**

The principle of "to each according to his work" has to be realized in a practical way. Given a widespread commodity-money relationship, the monetary wage system is the handiest one for the workers and staff in enterprises under ownership by the whole people. The state converts labour provided by them in a given period of time, usually a month, into wages, with which they buy consumer goods or pay services.

Wages in a socialist society are different in nature from those in a capitalist society. Under capitalism, wages are the transformation of the value or price of labour power. On the surface, it seems a worker receives a sum equivalent to the amount of labour he provides. In actual fact, the value contained in his wages is only part of the value he creates, while the rest is appropriated by the capitalist as surplus value, none of which is returned to the labourer. Therefore, such wages define the relationship between the capitalist and the worker as one between the exploiter and the exploited.

Under socialism, labour power ceases to be a commodity as soon as the means of production are placed under public ownership. A part of the value created by the labourer is used to meet the common needs of society—as expenditures for economic construction, administration, defence, and cultural, educational and medical developments—while the other part is set aside as funds for individual consumption and is distributed among labourers according to the quantity and quality of work they provide. In the final analysis both

parts are used to serve the interests of the working people—the former to further their collective and long-term interests and the latter to realize their personal, immediate interests. Thus socialist wages show the identity of fundamental interests between the state and the labourer based on the public ownership of the means of production.

Wages become an important and complex question under socialism because of its direct bearing on the material distribution among individual labourers, including mental workers, within the working class, and on the relations between the working class and the peasants within collectives. Just as distribution affects production, so the level of wages, their forms and the ratios between wages for various sections of labourers have much to do with the enthusiasm of the labourers and a correct handling of contradictions among the people. A correct wage policy requires a continuous investigation into this. Here are some important principles a socialist country usually has to take into consideration while formulating a wage policy:

1. The wage system must follow the principle of “to each according to his work”, that is, the principle of more pay for more work and less pay for less work, avoiding both wide discrepancies in wages and none at all. The wage system left over from old China showed wide gaps between the salaries of higher white-collar workers, particularly higher civil servants and business personnel, and the wages of blue-collar workers. Such unjustifiable differences were gradually lessened through reforms and readjustments of the wage system in the first years of New China. This was correct. Influenced by “Left” ideas, however, egalitarianism later became manifest as the chief erroneous tendency in our work relating to wages and salaries. Egalitarian ideas in China have a broad social base and deep historical roots. Old China was predominantly a country of small producers who circulated the motto: “If there is food, let everyone share it.” This expression of petty-bourgeois egalitarianism or agrarian socialism has often interfered with our work. As mentioned earlier, a supply system was practised during the revolutionary wars. It played an excellent role in those periods and left a deep impression on cadres. In 1958 some people began recommending the restoration of this system among the cadres. For a

while free meals were provided in the countryside, resulting in much waste and confusion. As an economically backward country with a big population, China could not but adopt a low pay scale which, coupled with a failure to effect pay raises for years, made life difficult for many middle-aged workers and staff members. In these circumstances, whenever pay raises are considered or bonuses granted, priority is often given to the most hard-pressed ones, making it difficult to abide by the principle of "to each according to his work". Elimination of the egalitarianism prevalent among both cadres and the masses will be difficult, but it should be attempted patiently. Its continued influence prevents both the principle of "to each according to his work" and the modernization drive from being effectively carried out.

2. The income of the workers and staff should be gradually increased on the basis of increased production and labour productivity. Wages in the lower brackets were raised by 30-60 per cent during the three-year period of economic rehabilitation(1949-52), and the average pay of workers and staff rose by some 30 per cent during the First Five-Year Plan period (1953-57). Evidence pointed to the superiority of the socialist system. However, due to errors in our work wages increased very slowly in the ensuing years and did not rise at all in the ten tumultuous years of the "Cultural Revolution" (1966-76). As a result, the average was essentially at the same level as that two decades ago. This affected the enthusiasm of the workers and staff. After the collapse of the Gang of Four, the Party Central Committee introduced some wage increases. During the years from 1979 to 1981, 30 billion yuan was allocated for pay raises for the workers and staff and the introduction of the bonus system. We should see to it that, on the basis of higher output and labour productivity, there will be raises every year for this or that section of them. Pay rise should be based on the increase of labour productivity and its margin should be narrower than that of the latter. Years of economic damages meant a slow rise or even a drop in labour productivity. It must be raised in the course of modernization to provide a basis for pay increases.

3. The relations between workers and peasants must be improved upon and the historical gaps between their living standards should be narrowed gradually on the basis of better production. Due to the

backwardness of agricultural production, the income of peasants is even more meagre than the generally low scale for workers. If this difference remains too long, it will be harmful to a further consolidation of the worker-peasant alliance. We must gradually narrow the gap by developing industrial and especially agricultural production and by effecting a marked improvement in the living standards of the people across the country. Generally speaking, the growth of labour productivity is relatively fast in industry but quite slow in agriculture. In formulating its wage policy and introducing wage increases, the state should make plans and arrangements that take into account not only the workers who number several tens of millions but also the peasants who number several hundred million. The income of the peasants should be increased by stepping up industrial support for agriculture, accelerating agricultural development and raising the purchasing prices of farm produce. Meanwhile, the income of workers in the intermediate areas between town and country should be adjusted properly to avoid widening the gap between workers and peasants.

4. The system of distribution according to work should be coupled with the establishment of better collective welfare facilities that will lighten the burden of household chores for workers and staff. At the present level of distribution in China, the working people operate within a tight budget. All governmental institutions and enterprises should run good public dining halls, living quarters, nurseries, clinics and other welfare facilities to ensure a worry-free devotion to work. In spite of the backwardness of its production, China has instituted free medical care, old-age pension and other labour insurance systems speaking for the superiority of the socialist system.

In a socialist society, the family still remains a consumption unit. Each labourer arranges his family budget on the basis of his income. Before social products become so bountiful as to make possible the application of the principle of "from each according to his ability, to each according to his needs", each family will have to operate on its own budget. This system requires the working people to lead a frugal life and takes care of family members who cannot work, particularly children. Thus it still has a highly important role to play as a guarantee of the people's livelihood. But it also gives rise to a contradiction between social collective labour and the household

chores of the individual, compelling many working people, especially women, to spend much time on the latter. When the higher phase of communism is attained, all needs in everyday life will be supplied by the collective means of society. Children will be raised and educated by society, and the family will be relieved of these economic functions. Only then will there be no more contradiction between social collective labour and the household work of the individual.

The forms of wages to be adopted under socialism is also a very important question. These forms include time wages and piece wages, supplemented by bonuses and job subsidies (such as those for field work, underground work, work under high temperatures, or exposure to hazardous conditions). Time wages, piece wages and bonuses may each take various forms. Whatever forms are adopted, they should be conducive to the implementation of the principle of "to each according to his work", to raising the socialist enthusiasm of the workers and staff members, and to their unity. This should be our point of departure.

New China has always used time wages as the main form and occasionally supplemented them with piece wages. The two, which differ only in minor respects, are adopted according to conditions in each trade. Piece wages may be based on the output of an individual or a group of workers. As mechanization and automation advances, it will be increasingly difficult to set quotas for the individual. Piece wages for the individual will become applicable in ever fewer cases and may be changed to those for a team in some cases. But we can leave that to the future. For the present, it is still necessary to introduce piece wages for the individual on a wider scale. Any denial of their usefulness would be incorrect.

Bonuses are likewise a necessary means to encourage the working people to do more for socialist construction. In particular, they are a necessary supplement to time wages. After the victory of the October Revolution, Lenin proposed to introduce bonuses on many occasions, pointing out that "bonuses would be impermissible under a full communist system but in the period of transition from capitalism to communism bonuses are indispensable, as is borne out by theory and by a year's experience of Soviet power".<sup>1</sup> The Gang of Four called piece wages and bonuses revisionist practices and abolished them, dampening the labour enthusiasm of the staff and

workers. Their mistakes should be criticized so that the ultra-Left practices on the wage question may be corrected as soon as possible.

#### 4. THE REFORM OF THE CURRENT WAGE SYSTEM

The current wage system in China was basically established through the wage system reform in 1956. This system took the principle of "to each according to his work" as its guideline and eliminated the many related irrational phenomena and the influence of the system of exploitation left over from the old society. While it did help to bring into play the initiative of the workers and staff members for socialist construction, the system, however, had many shortcomings: because of our lack of experience we copied too much from the model of the Soviet Union. For instance, undue emphasis was laid on national centralized management of wages, to the neglect of the need for proper differences in remuneration for workers and staff of different enterprises according to the actual quality of enterprise management and their actual contributions to the state. During the "Great Leap Forward" that began in 1958, "Left" errors were developed and the erroneous ideas and practices were propagated of advocating the restoration of the "supply system" of the war years and playing down and even negating the principle of distribution according to work. All this frustrated the initiative of the workers and staff. During the period of the readjustment of the national economy in the 1960s, the afore-mentioned principle of distribution was reaffirmed, but the "Left" errors were not ended once and for all. During the 10-year domestic turmoil (1966-76), everything was upset and this principle was once again repudiated through criticism of "bourgeois right". At the same time, the economy, affected by the "Left" errors for more than 20 years, suffered setbacks one after another and economic effectiveness was reduced. For most of the workers and staff members, wages remained static. Those who had come to play an important role in production were still kept at the lowest wage grade, which fact means

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<sup>1</sup>V.I.Lenin, "Draft Programme of the R.C.P.(B.)", *Collected Works*, Progress Publishers, Moscow, 1965, Vol. 29, p. 114.



their remuneration had little connection to their labour contributions. The result was that egalitarianism became the main erroneous tendency in China's wage system.

First of all, this egalitarianism is shown in distribution within the various enterprises. From 1956 to 1977, China conducted only three small-scale readjustments of wages, mainly raising wages for a small number of workers and staff with low wages. As a result, a great number of workers and staff stayed at the lowest wage level though they had been working for many years and their technical competence and work capacity had greatly increased. For instance, an apprentice and his master could both be second-grade workers in some enterprises. There even existed the phenomenon of three or four generations of masters and apprentices getting the same wage. College graduates of the late 50s or the early 60s had not had wage increases for a long time so that their wages were even lower than those of workers of the same generation. Because of financial limitations, a policy of "promotion without salary raise" was adopted for those cadres who had been elevated to higher posts, resulting in a great disparity between work post and salary level. So the irrational phenomenon grew: those with higher technical proficiency, doing important tasks and making more contributions to the nation were not paid accordingly; everybody got the same pay irrespective of job performance. Especially disadvantaged were numerous middle-aged workers and staff and intellectuals loaded with arduous work. Getting low wages and shouldering heavy family burdens, they had hard times and were hampered in their work and in the development of their professional knowledge. This has become a serious problem crying for solution.

After the Third Plenary Session of the Party's Eleventh Central Committee, the state introduced some wage increases and granted bonuses. But it is difficult to solve the problem in a very short period after neglecting it for more than 20 years. Some methods adopted were expediciencies. For instance, wage upgrading would be first based on the length of service, special consideration given to those who were underpaid and in straitened circumstances. This meant that valuable back-bone workers and staff did not get much benefit. As for the granting of bonuses, egalitarianism is prevalent in many enterprises. As a matter of fact, bonuses have become living

allowances instead of being issued as reward to those who have contributed more to the state. It is true that the life of workers and staff have been improved in recent years, but egalitarianism in enterprises is far from being eliminated.

Secondly, egalitarianism is also found among enterprises. In the past, we admitted theoretically that pay for workers and staff members in enterprises under collective ownership should reflect the economic results of their units, but we failed to realize that the same should apply to workers and staff in the enterprises under ownership by the whole people. That is why workers and staff in all state enterprises are paid according to the same wage scales irrespective of the performance of these enterprises or their actual contributions to the nation. Some enterprises are well managed and their workers and staff work hard, earning more profits than other enterprises. But their wage funds and collective welfare facilities are not increased. On the other hand, some enterprises are poorly managed, and their workers and staff do not work conscientiously, incurring losses. But there is no decrease in the remuneration for their workers and staff. This egalitarianism is harmful to the development of the socialist economy because it dampens the enthusiasm of the enterprises and their workers and staff to improve management and operation so as to make greater contributions to the country.

Confusion of wage rates within enterprises is another irrational aspect of the wage system. During the 1950s, when wage scales were unified throughout the country, the government stipulated regional and trade differences in line with the varying conditions in different regions and trades. Since then, 20 years have elapsed and the transfer of personnel among regions and trades has resulted in scores or even nearly 100 wage rates within an enterprise because most of the workers and staff transferred there have kept their original wages so as not to reduce their income. Furthermore, there exist even in one and the same enterprise different wage payments for the same wage level, giving rise to the irrational phenomenon of different pay for equal work. Especially in many newly-built enterprises whose workers and staff members come from all parts of the country, diverse wage scales are made to co-exist in order to avoid disputes in the readjustment of wages following personnel transfer. There seems to be unified wage scales for the whole country, but, the fact is that

every individual enterprise has its multifarious scales which cannot reflect the distribution principle of "to each according to his work."

From the above, it is clear that a reform of the wage system is imperative in order to speed up economic construction.

First, it is necessary to overcome egalitarianism and carry out the principle, "to each according to his work". The irrational phenomenon of paying in disregard of work performance should be got rid of. The wages of workers and staff should be determined mainly in accordance with the complexity of their work and the degree of strenuousness, and by their technical competence, work capacity and actual contributions, instead of simply in accordance with length of service and seniority. Although one's length of service and seniority is sometimes related to his technical competence and contribution, the two aspects do not correspond in all circumstances. So, wages should be fixed chiefly according to work capacity and contribution, with due consideration to the length of service and seniority. Much less can one's financial need be taken as a factor in determining his wage level. A socialist country should provide relief and other help for the livelihood of those workers and staff who have lost labour capacity or have a hard life. However, this cannot be confused with the principle of "to each according to his work". The solving of these kinds of problems needs the initiation of special social insurance. The wage grade for workers and staff should be decided principally according to their work posts (duties and technical or professional titles) and their actual contributions. As previously stated, over the past 20 years many workers and staff members who were promoted have got little or no salary raise, ending up at a pay level three or four grades lower compared to the level of work post. From now on, wages should be matched gradually to work posts as the national economy develops. Those who are already holding important posts but remain at a lower wage should get more pay rises; those who have made special contributions should be raised two or more wage grades at one time. Enterprises should regularly check on the job performance of their workers and staff, and they should have a series of criteria for judging technical proficiency as well as a scientific managerial system to assess work contributions. Workers and staff who improve their technical proficiency faster and make more contributions than others should have quicker wage increases. In

giving promotions and wage raises in the immediate future, special consideration should be given to those middle-aged workers and staff, particularly middle-aged intellectuals, particularly those who have become backbone force in work. As for those few workers and staff with consistently bad job performance and poor professional competency, they should be demoted.

At the same time, egalitarianism in the issuance of bonuses should be overcome. In the past few years, the sum of bonuses greatly exceeded the expenditure for pay rise. Bonuses are necessary, but should only be given to a small number of workers and staff who have overfulfilled their production quotas and made special contributions. Bonuses cannot be shared equally for reasons of difficult livelihood. Part of extra profit can be used as bonuses, according to the regulations, in enterprises which are specially well managed and whose workers and staff work hard to increase profits. Enterprises without such accomplishments should allocate small bonuses or none at all. From now on, bonuses and irrational subsidies should be controlled and the money thus saved should be expended in wage readjustments. Only in this way can egalitarianism be overcome and the principle of "to each according to his work" be put into practice correctly.

Second, the irrational phenomenon should be overcome of equal remuneration for workers and staff of different enterprises without regard to enterprise performance. Workers and staff of an enterprise that has made outstanding contributions to the state because of good management and high labour enthusiasm should receive more pay and benefits, while those of less successful enterprises should receive less pay and benefit. Only thus can the interests of the state, the enterprise and the workers and staff be properly combined. Only thus can an enterprise and its workers and staff be encouraged to do more, improve management, increase economic results and contribute more to the state.

In the past, some comrades used to take the view that unequal distribution of pay to workers and staff of different enterprises contradicted the principle of the exchange of an equal amount of labour for an equal amount of products. Such a view is not correct. Distribution according to work means a worker should be paid according to the quantity and quality of his work, the work time and

the intensity of work as well as the proficiency level and the complexity of the job. In addition, the economic results of his labour and his actual contribution to the enterprise and the state should be taken into consideration. In large-scale socialized production, it is evident that the economic results of labour depends not only on the ability of the individual worker, but also on the scientific division of labour and co-operation among the workers of an enterprise, plus co-operation with other enterprises and whether or not the economic activities of the enterprise is in keeping with the needs of the state and the people. All the above-mentioned factors should be taken into account when assessing the contributions of workers and staff members. Only in this way can the labour expended by a worker produce the greatest economic results for the state and the people. In order to motivate all workers and staff members to be concerned over the economic results of their labour, their pay should be linked closely with the economic results of their enterprise. This is another important question we must take into account in reforming the labour and wage systems. In normal circumstances, the economic results of an enterprise can largely reflect the contributions its workers and staff members have made to the state through their labour. So linking the pay level of workers and staff with the economic results of their enterprise does not violate the principle of "to each according to his work". If such economic results are due to favourable objective conditions (such as the good quality of technical equipment and favourable external conditions of production and prices), the state may readjust the profit plans of the related enterprises and stipulate different assessment norms. Thus the labour remuneration of workers and staff of different enterprises will not be affected by the objective conditions but will continue to basically embody the principle of "to each according to his work".

A series of experiments have been conducted in recent years for the purpose of appropriately linking the pay level of the workers and staff with the economic results of the enterprises. For instance, various systems have been tried out, whereby state enterprises are entitled to retain a fixed portion of their profits, a part of which is used as bonuses. Well-managed enterprises with high profits are allowed to issue more bonuses to their workers and staff members, and a few excellently-managed enterprises may give pay rise to a

greater percentage of workers and staff than other enterprises. Recently, some enterprises have adopted a wage system that combines the basic wage with a floating wage. That is to say, the wages of workers and staff are divided into two categories: one is the basic wage which, though a little lower than the state-set wage standard, guarantees the basic needs of life of the workers and staff; the other is the floating wage which varies with enterprise performance and the amount of profit gained by the enterprise. The floating wage varies from enterprise to enterprise depending on the amount of above-quota profits each achieves, and it varies even in the same enterprise in different years depending on different yearly above-quota profits. These experimental reforms are providing valuable experiences.

Third, enterprises should be allowed to readjust their wage scales as they see fit, within the framework of the fixed payroll. There is excessive and too rigid state control over labour and wages. To maintain the payroll, the state directly stipulates the percentage of workers and staff who are to get pay raises and the amount of bonuses to be issued (this amount is not to exceed a fixed percentage of the payroll).

But the result is that overstuffed, inefficient enterprises may have more people getting pay raises and bonuses than in enterprises which have achieved higher labour productivity by making better use of their personnel. Consequently the enthusiasm of the enterprises to eliminate overstaffing and raise labour productivity will be dampened. Furthermore, in artificially unifying wage rates throughout the country, enterprises are left with no room for manoeuvre, resulting in multifarious wage rates even within one and the same enterprise, to the detriment of the principle of "to each according to his work". All this must be changed. Of course, a socialist state should control the national payroll through planning, and it should, in principle, have unified wage scales for the economic sector under ownership by the whole people. But flexible methods should be adopted in actual implementation, and enterprises should be granted appropriate power to manoeuvre. An enterprise should be allowed to act in line with the principle of "to each according to his work", so that, within the scope of the set payroll and with the approval of the congress of workers and staff and of the higher

authorities, it can readjust its wage rates and methods of pay and the pay levels of its workers and staff in order to achieve unitary wage rates within itself. The enterprise should also be given the power to demote and even expel those workers and staff who seriously violate labour discipline and refuse to mend their ways despite repeated education. It should be permitted to assign its surplus workers and staff to other jobs. And part of the wages thus saved may be used for raising the wage levels of others or as bonuses so as to encourage the enterprise to raise labour productivity. The above is part of the decision-making power an enterprise should have. No decision-making power is complete without the enterprise being allowed to manage matters regarding labour and wages even if it is allowed to manage affairs relating to finance and supplies.

Naturally, there will be difficulties in the above-mentioned reform of the current wage system, because it involves the immediate interests of a large part of the workers and staff. Furthermore, many people for a long time have been deeply influenced by the "supply system" of the war years and by egalitarianism, the shattering of which will certainly meet with resistance. Unless the "iron rice bowl" system that has been in effect for over 30 years is broken, it would be impossible to raise labour productivity and the initiative of the workers and staff. With the "iron rice bowl" system, workers and staff can only be employed, not discharged; can only be promoted, not demoted; can only be rewarded, not punished; and their wage levels can only be raised, not lowered. Wage reform should be carried out resolutely and in a planned way. Extensive and effective education and political ideological work must be conducted among the workers and staff in order to ensure that they have a correct attitude, bearing in mind the overall and long-term interests of the nation. Also, the reform must first be carried out experimentally at selected points to get experiences before it is extended gradually to wider and wider areas. And at the same time, corresponding economic legislation must be formulated so that the new wage policy can be implemented without fail.

## **5. PERSONAL INCOME UNDER COLLECTIVE OWNERSHIP**

"To each according to his work" is also the general principle

followed in the economic sector under socialist collective ownership. But its application is limited by the economic conditions under such a system of ownership and takes on many special features.

The two forms of public ownership of the means of production in a socialist country give rise to two corresponding forms of distribution.

In the economic sector under ownership by the whole people, the products of an enterprise belong to the state. The enterprise turns over most of its profits to the state and retains the rest as its own fund. It pays its workers and staff mainly according to the unitary wage scales of the state on the principle of "equal pay for equal work".

Things are different with the economic sector under collective ownership. Take for instance the collectively-owned economic units in agriculture. Here the products belong to the collectives, each of which conducts reproduction and arranges for the livelihood of its members by means of the proceeds it derived from production after paying taxes to the state. Thus it is not yet possible to apply the principle of "equal pay for equal work" insofar as different collectives are concerned. Within the same collective, distribution is carried out basically according to the above principle. But in different collectives it is carried out according to the quantity of products available to each of them. The pay is higher in communes, production brigades and production teams which achieve a higher labour productivity, produce more and earn more, and lower in the opposite case. This means considerable differences in pay between communes, brigades and teams in addition to those between workers and peasants. Apart from their initiative, they earn a higher or lower income because:

1. Their natural conditions are different, such as the size and fertility of their land, their location on a plain or in a hilly region, in a warm or cold zone, the amount of rainfall, and contiguity to market. Under capitalism, the extra profits accruing from advantages in these respects are basically collected by the landowner in the form of differential rent. Although private landownership has been abolished in a socialist country, the varying natural conditions affecting the output of economic collectives give rise to a differential income so long as these collectives are responsible for their own profits and losses and earn more by producing more. This is an important reason



for the unequal pay in different collectives.

2. Apart from land, the other means of production also vary in quantity and quality from one collective to another. These include draught animals, farm implements, farm machinery, chemical fertilizers, insecticides, irrigation facilities, etc. Land may be worked by tractors, oxen or ploughs and spades. Collectives equipped with better means achieve a higher labour productivity and pay more for each workday.

Although natural conditions and the means of production do not create value in themselves, equal labour in agriculture may produce unequal results. Wage differences in different collectives arising from this factor are therefore a reflection, in the sphere of distribution, of their unequal appropriation of the conditions of material production. Differences in pay arising from unequal appropriation of the means of production can be basically eliminated among enterprises under ownership by the whole people, but this is something that cannot be done in the economic sector under collective ownership. In the case of the collectives, the state can only help to narrow the differences but cannot eliminate them.

Under socialism, the principle of exchange of equal values is basically practised between the state and the collectives, so that a commune, brigade or team that sells more agricultural produce gets more industrial goods in return. In other words, the state supplies goods to the collectives in proportion to the quantity of products they provide to the state. Communes, brigades and teams with better conditions of material production, including natural conditions and means of production, are able to pay more to their members on the basis of a higher labour productivity and more proceeds from production. The pay for a workday in a high-yielding commune, brigade or team may be several times that in a low-yielding one. This shows that two principles of payment are basically followed in the collectives: the principle of more pay for more work within a collective as a single business accounting unit, and the principle of more pay for more output among different collectives as different business accounting units. Marx says that in the application of the principle of "to each according to his work", a socialist society tacitly recognizes "unequal individual endowment and thus productive capacity as natural privileges". As far as distribution in the economic

sector under collective ownership is concerned, we have to recognize tacitly the unequal conditions of material production in different collectives as their "natural privileges", which actually are social privileges. But such differences have to be recognized as long as collective ownership needs to be retained. Any attempt to eliminate such differences by taking things from the better-off collectives and giving them to the poorer ones would amount to the abolition of collective ownership, which would do much damage to agricultural productive forces. No such policy should ever be adopted.

It should be stressed that if nothing is done about the economic disparities among the collectives, they will tend to grow and will never diminish by themselves. The high-yielding communes, brigades and teams not only enjoy a higher living standard but increase production at a faster rate because it can set aside more money to buy farm machinery, chemical fertilizers and insecticides and undertake farmland capital construction on a large scale. The low-yielding communes, brigades and teams can hardly save any money and whatever savings they may have are used up as relief to households which are almost perpetually in debt. Over the years, the disparities in living standards between rural areas have not narrowed but widened. While the peasants in a few high-yielding areas are faring as well as industrial workers and those in some communes, brigades and teams are even better off than the latter, agricultural production has shown little progress in many low-yielding areas and has remained what it was in the early post-liberation years in some localities. This is unfavourable to a general, nationwide development of agricultural production. Things have changed for the better since the introduction of the farm production responsibility system, but there are still a small number of areas and communes, brigades and teams which need state help.

To narrow the economic disparities among communes, brigades and teams, the state should take over part of the differential incomes arising from better natural conditions by agricultural taxation and other economic means and use the revenue to help the poor collectives. However, the high-yielding collectives must be allowed to keep the margins over the incomes of the average collectives which they have earned by improving their conditions of material production through self-reliance, e.g., by intensive cul-

tivation, levelling the land, building farmland irrigation works and buying farm machinery. This will encourage them to do an even better job.

The form of payment in the economic sector under collective ownership also differs from that in the sector under ownership by the whole people. Operating with poor equipment and a low labour productivity, agriculture under collective ownership in China cannot fully protect itself against natural disasters and produces little to be set aside as reserve. Thus the farm collectives cannot afford to pay their members relatively fixed wages as in the state-owned enterprises, but have to work out their remuneration basically in terms of workpoints which do not have a fixed value. The workpoints are calculated chiefly by two methods — by the points due to each person in a workday and by his fulfilment of labour quotas. With the first method, the collective determines the number of points due each member in a workday according to his productive capacity, skill and conscientiousness. With the second method, the points are determined by the fulfilment of labour quotas set for various jobs. During the final accounting at the year's end, the collective counts the total number of workpoints due its members, sees how much consumption fund is available for distribution among them, divides the latter by the former to determine the value of each workpoint, and works out the pay for each person on that basis. The members may receive an advanced part of their pay in the course of the year.

Because the collectively-owned economic units in agriculture are based on unified management and collective production, the workpoint system is a feasible way to arouse the initiative of the peasants. This system still exists in some communes and their subdivisions.

However, experiences in the past two decades and more show that while some farm jobs are suitable to collective labour, most are suitable for individual operations on a household basis. Both these forms of production have advantages. Many jobs which are done by collective labour in a production or work team do not permit peasants to arrange their own labour time, and it is difficult to check the labour intensity and quality of each peasant, hampering the effectiveness of peasant initiative. To solve these problems,

the method of contracting jobs on a household basis has been tried out in many communes, brigades and teams, and labour productivity has been raised many times. However, this method fails to guarantee intensive and meticulous farming and so cannot ensure high output. In such circumstances, various forms of the contracted responsibility system with payment linked to output have been introduced rapidly in recent years. Many areas use the method of contracting output on a household basis, whereby remuneration is determined according to actual output. Another method is contracting all the related quotas on a household basis. In other words, each household contracts for the cultivation of a certain amount of farmland and, having deducted agricultural tax and what should be delivered to the commune, brigade and team after harvest, retains the rest of the output for its own use. With this method, each household pays for the material consumption in production (agricultural cost), thus increasing production and practising economy. Different conditions in different areas call for different manner of distribution in the implementation of the above-mentioned contracted responsibility system, but a common feature is that distribution is carried out according to specific output.

Compared with the egalitarian practice of "everybody eating the rice cooked in one big pot", payment under the output-related system of contracted responsibility is more in line with the actual contributions made by labourers. This is because the basic means of production—and—within a production team is equally distributed and the other conditions of material production are essentially the same as far as the team members are concerned, so that the differences in output are determined mainly by the quantity and quality of the labour expended. That is why we say this method of distribution is more close to the principle of distribution according to work.

Where collective labour is organized with production team as a unit, every able-bodied labourer has to take part in such labour, or lose out on workpoints as remuneration. With the introduction of the system of "contracted household responsibility linking remuneration to output", many peasant households have more time to go in for side-line production and diversified economy. This is because the system has led to higher labour productivity so that two

or even one person can do a job formerly done by three. Some communes, brigades and teams contract part of their side-line production (such as crop cultivation, stock-breeding and aquiculture) to specialized households with which they sign contracts for income distribution. Some peasants who have special skills have been released from general agricultural production to engage in pig or poultry breeding, fishery, fruit tree cultivation or similar side-lines on their own. It is thus clear that the distribution system in the rural areas grows more complicated along with the development of diversified undertakings and division of labour.

China's rural areas still practise semi-natural economy where each household maintains a big portion of autarkic production and each production team engages in farming, forestry, animal husbandry and fishery under unified management. A natural economy inevitably develops towards a commodity economy which necessitates greater division of labour, giving birth to specialized household productive undertakings. The specialized households in turn lead to combinations among themselves, namely, co-operative specialized groups or co-ops and even organizations integrating supply, production and marketing. Such forms of combination may go beyond a team, a brigade or a commune to become new-type rural units under collective ownership. More complicated forms of distribution will be born in such a collective economy. Whatever the actual forms of distribution, the principle of exchange of equal values should prevail between the economic units under collective ownership and between such units and the individual specialized households. And the principle of paying according to work or sharing dividends according to work should be implemented among the labourers within this collective economy. At present, some collective economic units and specialized households use a number of helpers who earn wages. For the time being, it is not advisable to restrict them too much so long as the helpers work there of their own free will. They should, in due course, be gradually induced to develop towards collectively-owned economic units practising common labour and the distribution principle of "to each according to his work".

To narrow the difference between workers and peasants and to enable the other peasants to concentrate on agricultural produc-

tion, it was once the practice that peasants working in enterprises run by the communes, brigades or teams, except for a small number of technical personnel who usually received subsidies, were paid back in their own production teams according to the workpoint value prevailing therein. This distribution method, however, gave rise to contradiction between workers in the same enterprise who came from different communes or their subdivisions with different degrees of economic strength. It was not unusual that a master coming from a poorer unit got lower wages than his apprentice coming from a richer one. Obviously this ran counter to the principle of "to each according to his work". Now that there is no unified workpoint value in the production teams after the initiation of the output-related system of contracted responsibility, the aforesaid enterprises should practise the principle of "to each according to his work" or of sharing dividends according to work. To narrow the difference in payment between workers and staff of these enterprises on the one hand and the peasants working in the communes, brigades and teams on the other (usually the wages of the former are higher than the remuneration paid to the latter), the production brigades and teams may draw from those enterprises a certain amount of public accumulation funds and public welfare funds for developing agricultural production and collective welfare facilities in the rural areas. Also the state may collect an income tax from those enterprises for the development of agricultural production and local public works (highway transport, water conservancy, etc.) as well as for helping the poorer areas in their productive activities which may thus yield a greater income. Various effective methods should be adopted to keep the income differences among the labourers engaging in agriculture, industry and commerce from widening so as not to affect the peasant's enthusiasm for agricultural production over the long run.

## **6. CORRECT HANDLING OF DIFFERENCES IN LIVING STANDARDS**

Differences in living standards are inevitable between the working class and the peasantry, within the ranks of the working class and within the ranks of the peasantry in a socialist country be-

cause it has two systems of socialist public ownership and follows the principle of "to each according to his work". In his speech, "On the Correct Handling of Contradictions Among the People", Mao Zedong underscores the need to handle correctly the contradictions within the working class, within the peasantry, and between these two classes, so as to bring into play all positive factors that may serve the cause of building a powerful socialist country. The fundamental reason for keeping the present differences in living standards lies in the extremely low level of productive forces which cannot be developed properly if a premature attempt is made to minimize the differences. However, we should make overall arrangements and correctly handle these differences.

The differences in living standards between the working class and the peasantry in China are determined by the relatively high labour productivity of the former and the very low labour productivity of the latter. These differences cannot be narrowed except through a sharp rise in the peasants' labour productivity and in their income. For over twenty years, the ratio between the living standards of the workers and the peasants has basically stood at about 2 to 1. It has dropped a little where agriculture has developed faster and has risen where agriculture has made little progress. Instead of closing our eyes to this, we must take specific measures to solve the problem gradually. In some suburban areas, the peasants' earnings have approached those of the workers or even exceeded them, thanks to the series of correct policies adopted since the Third Plenary Session of the Party's Eleventh Central Committee to stimulate the development of agriculture and side-line production and markedly reduce the worker-peasant difference. However, the rural environment of the peasants, both material and cultural, is still inferior to that of the workers living in the cities. To promote agricultural development, a portion of peasants should be paid slightly higher than workers in a given period of time provided agricultural production grows and brings in a better income. The point is to achieve prosperity through honest labour instead of by evil ways. But for a long time to come the pay of most peasants cannot possibly exceed the wages of the workers, which are still very low and will have to be increased sharply. In well-off communes, brigades and teams, the peasants

should be encouraged to set aside more of the profits as accumulation. Except in poor collectives, the profits of the industries run by communes and their subdivisions generally should not be distributed for consumption but should mainly be used for farm production and the advancement of these industries, while a part may go to the poorer brigades and teams as financial assistance.

Within the ranks of the workers, the main problem at present is egalitarianism rather than excessive differences. It is necessary to adhere to the principle of "to each according to his work" and, within the limits of financial resources and the commodities available on the market, grant bigger pay raises to those workers and staff members who are highly skilled and have made unusual contributions. As most of them are middle-aged and have a fairly heavy family burden, they would not enjoy a much higher living standard than younger people even if their wages were raised two or three grades higher than those of the latter.\* Apart from higher wages, the state should provide more material rewards for the workers and staff members for their outstanding contributions to the fulfilment of production plans and in other respects. The payment and collective welfare of workers and staff should be linked with enterprise performance. Among the state-owned enterprises, the principle of equal pay for equal work can only be practised in a relative sense. Instead of adopting a realistic approach, some comrades mistake the above measures as signs of an "exclusive stress on material benefits" and "reliance on material incentives" supposedly impairing the "purity" of socialism. They should distinguish between right and wrong and free themselves from such a misunderstanding.

Another drawback of the present wage system is that the wages of the scientific and technical personnel are too low to meet their indispensable needs in work and everyday life. This is especially true for many middle-aged intellectuals whose work and family burdens are so heavy and whose wages so irrationally low that their work is affected. This is not helpful to socialist modernization. For years, there has been the "Left" error of discriminating

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\*In terms of money, a difference by one grade generally amounts to 10 yuan — *Trans.*



against intellectuals and making incorrect appraisal of their labour. In fact, intellectuals' labour creates material as well as spiritual wealth. Though their labour does not usually create material products directly the results of their labour, once transformed into actual productive forces, contribute greatly to the making of material wealth. Socialist modernization is impossible without the development of science and technology and the labour of intellectuals. It is necessary to correct the deviation of discriminating against mental labour and at the same time help the manual workers raise their scientific and general cultural levels. And, to speed up socialist modernization, we have already set about solving this problem. Meanwhile, we should pay attention to the life of workers and staff receiving lower wages and, within the limits of our financial means and supply of commodities, gradually raise their pay scales. In this way, the gap between the maximum and minimum wages will not be widened but narrowed steadily as production grows. Furthermore, the phenomenon of some cadres going after privileges has incurred the greatest resentment of the people at present. Mao Zedong repeatedly pointed out that leading cadres of the Party and the government should never seek privileges and should maintain the fine tradition of hard struggle of the revolutionary war years, that all extravagance and waste must be criticized and those who have committed serious offences in this regard should be demoted, removed or even punished by law. This is a crucial point. Privilege seeking violates the principle of "to each according to his work", a corrosive that results in the estrangement of our cadres from the masses and in their degeneration. Effective measures should be taken to clear it away.

The differences in the living standards among peasants are even more pronounced than those among the workers or between workers and peasants. Agricultural production is limited by natural conditions, which vary greatly in such a vast country as China. The differences in living standards as a historical legacy cannot be eliminated in a short time. All we can do is to create conditions for narrowing these differences by developing production and extending substantial state assistance to poor areas and collectives for a faster growth of farming, animal husbandry, forestry, fishery and side-line occupations. For instance, special consideration may

be given to low-yield areas in the matter of taxation. Banks should increase loans for agricultural development in such areas, and more budgetary investments should be made there to help them improve their conditions at a greater speed. It is wrong to artificially level off the differences in living standards among the peasants. We should encourage a section of them to become prosperous first, for this will impel others to improve their livelihood through labour, helping to narrow the said differences. Many communes and their subdivisions have developed their own industries and have thus increased industrial support for agriculture in recent years. While this is a remarkable achievement, attention should be drawn to the fact that commune industries have grown fast in the industrially developed coastal areas but rather slowly in the industrially underdeveloped interior regions. The state should guide commune industries along proper lines and help communes in mountainous and pastoral areas develop their industries speedily by utilizing local resources. It should prevent a further widening of the disparities between various regions by helping the poor collectives increase their income and not by forcing down the income of the rich ones.

In our studies on the question of distribution, we have concentrated on distribution within the ranks of the workers and staff in state-owned enterprises and state organizations, paying little attention to distribution between the working class and the peasantry and still less to distribution among the peasants. This was a shortcoming. It seems necessary for theoreticians and comrades doing practical work to give more thought to the question of narrowing the differences among the peasants, especially the economic disparities between areas, and devote themselves to this important subject of study.

## Chapter V

### COMMODITY AND MONEY UNDER SOCIALISM

#### 1. EFFECTIVE USE OF THE COMMODITY-MONEY RELATIONSHIP

The experience of socialist countries over the decades has proved that effective use of the commodity-money relationship, including the role of the market, is necessary in building socialism. This is especially true of China, where the commodity economy remains under-grown and the commodity-money relationship needs to be developed. Use of the commodity-money relationship was instrumental during the drive to place the means of production under socialist ownership. Commodity and money will continue to play a crucial role in speeding up socialist economic construction, satisfying the ever rising material and cultural requirements of the population and achieving the modernization of the nation's economy.

In the years of the War of Resistance Against Japanese Aggression (1937-45) and the War of Liberation (1946-49), the Chinese Communist Party gained experience in combating the enemy through trade, recognizing the objective laws governing the circulation of commodities and money. In the struggle waged soon after the founding of New China to stabilize prices and contend with the capitalist class for dominance over the market, the state did not limit itself to the use of administrative means, such as official control over the market and over prices, but made full use of economic means, that is, the objective laws governing commodity and money, and did so with much success.

As soon as prices were stabilized, the state organized a large-scale exchange of goods between town and country, increased the amount of currency in circulation to meet market needs, purchased grain,

cotton and other key agricultural products from the rural areas, bought up the goods stocked by industrial capitalists and signed contracts with them under which they provided the state with manufactured goods. These exchanges of commodities contributed much to the rehabilitation and development of industrial and agricultural production. Working through such channels, the state gained control over nearly all bank deposits and over the circulation of major industrial and agricultural products, firmly establishing the leadership of state economy over the other sectors of the economy. Without making effective use of the commodity-money relationship, the state could not have accomplished all this so quickly.

During the period of the socialist transformation of the ownership of the means of production, the Communist Party adopted a policy under which industrial capitalists did regular processing jobs for the state and sold practically all their products to it. Commercial capitalists became dealers in state-supplied goods, while the small producers were linked with the state through supply and marketing co-operatives. Extensive utilization of the commodity-money relationship paved the way for capitalists and small businessmen to accept socialist transformation step by step, finally switching to joint state-private ownership by whole trades or forming co-operatives.

After most means of production were placed under socialist ownership, we should have continued to make full use of the commodity-money relationship and the market, managing the economy on the principle of "strict planning in major affairs and flexibility in minor ones". However, things were not handled this way. For one thing, we did not take into full account the presence of collective ownership all over the country and the predominance of a partially self-sufficient economy in the rural areas. For another, we were not sufficiently aware of the complexity and diversity of the needs in national construction and in the people's livelihood. Thus too many enterprises were hastily merged in the course of socialist transformation, there was too much rigidity in planning and management, and the role of the market was not brought into full play.

This was an important reason why production and marketing became separated from each other. The chief manifestations of this deficiency, which have existed to this day, are as follows:

1. Urban commerce, monopolized by state commercial agencies, is not sufficiently responsive to market needs. When private shops switched to joint state-private ownership, they fell into two categories: (1) those under state management from which the capitalists drew fixed interest; and (2) small shops acting as retailers or commission merchants for state commerce, which assumed responsibility for their own profits and losses under the signboard of joint state-private ownership. Shops in the second category turned out to be more useful to customers because they were everywhere and worked longer hours.

At first, peddlers were allowed to sell their wares in streets and alleys, offering ready service to the residents. Beginning in the late 1950s, the small shops were abolished and the peddlers assigned other jobs. Even the supply and marketing co-operatives were not allowed to sell in cities the agricultural and side-line products they had purchased from rural areas. Thus everything became monopolized by the state, resulting in perpetual shortages of daily necessities and special and native products, as well as poor service to customers. Commodities had to go through wholesale agencies at three levels before they reached the retailers, entailing long periods of transit time and further expenses and losses. Worse still, state commercial departments often purchased anything produced by state-owned factories according to plans regardless of market demands, and the goods were either over-stocked or sold out. Obviously, all this contradicted the fundamental principle of producing for the needs of society.

2. With regard to the purchase of farm and side-line products, we failed to secure the participation of the peddlers by organizing them through co-operatives. Nor did we ask the communes, brigades and teams to handle the purchase and sale of the scattered amounts of goods produced or gathered by their members. All purchases were left to the supply and marketing co-operatives, which could not possibly handle the tens of thousands of farm and side-line products and the wide range of local and special products of various regions. In the 1950s peddlers with business licences toured villages collecting local and special products not covered by the supply and marketing co-operatives for sale in country markets; but they have long been transferred to other jobs. Since the supply and marketing

co-operatives cannot handle the purchase of many of these products, the communes, brigades, teams and commune members have stopped producing or gathering them. Consequently these products are often unavailable on the market, causing a decrease in the peasants' income, inconveniences to the urban population and losses to the state.

3. The formation of handicraft producers' co-operatives in the mid-1950s resulted in a decrease in the variety and specifications of handicraft goods. Beginning 1958, many handicraft co-ops were merged as co-operative factories, which produced less or none of the miscellaneous goods formerly produced by the co-ops, causing an acute shortage of some small farm tools and household utensils. Ironically enough, people working in mountainous areas had to purchase wash boards in Beijing or paper clasps in Shanghai. The traditional specialities of many areas have decreased and some even disappeared altogether. Apart from defective industrial administration, an important reason for all this lay in the over-extended and excessively rigid control over commerce.

Without a doubt, a socialist society must have a unified socialist market with state commerce in the lead. But leadership does not mean monopoly; a leader cannot exercise leadership if he does everything himself. In 1962, the Tenth Plenary Session of the Eighth Central Committee of the Chinese Communist Party adopted a decision on the improvement of commercial work, which stated that in a unified socialist market, state commerce occupies a leading position, co-operative commerce assists state commerce and the trade fairs supplement both. However, the supply and marketing co-operatives, which are completely directed by the state, are co-operatives in name but state enterprises in reality, which means there is no co-operative commerce providing assistance to state commerce. During the ten chaotic years of the "Cultural Revolution" (1966-76), trade fairs in many areas either declined in number because of excessive government control or even disappeared. The people's communes were not allowed to market their products in the cities, and even the supply and marketing co-operatives could not sell in town the farm produce and side-line products they had purchased. This naturally aggravated the shortage of non-staple foods and other local special products on the urban market. Since

the Third Plenary Session of the Party's Eleventh Central Committee, trade fairs have been restored in town and country, and they have developed to some extent. Thanks to the accomplishments, in recent years, of the system of contracted responsibility and the growth of specialized households in the countryside, commodity production is developing rapidly. This calls for a corresponding expansion of the circulation of commodities, for the original trade fairs have been unable to handle commodity circulation in urban and rural areas. Further expansion of the supply and marketing co-operatives is needed; those below the county level should encourage the masses to buy dividend-carrying shares and to take part in their management. In addition, co-operative commerce of a mass character and individual commerce should be developed with the guidance and support of the supply and marketing co-operatives. Co-operative commerce may be run by communes, brigades or teams, or by individuals, who should register with the supply and marketing co-operatives and secure their approval. This latter category includes long-distance transport of goods for sale within the limits permitted by law, namely, transport of farm produce to the cities or of industrial products to the rural areas. Urban commerce cannot be monopolized by the state, nor can rural commerce by the supply and marketing co-operatives. Circulation channels must be increased and the intermediate links reduced. Long-distance transport of goods for sale, which is advantageous to town-country exchange, should be encouraged, not restricted. This does not mean that state commerce and the supply and marketing co-operatives will be weakened or lose their leading role. They will continue to lead because most of the wholesale commerce is controlled by the state and the supply and marketing co-operatives possess huge funds and command wide markets, so that co-operative commerce and individual commerce have to rely on them. Many co-operatives and self-employed businessmen can only engage in transport of goods for sale within 50-150 kilometres. Most of the farm produce they purchase have to be sold to state commerce or the supply and marketing co-operatives. The industrial products they sell have to be supplied by the state-owned wholesale centres, only a small part being purchased directly from the factories. So, co-operative and individual commerce in the rural areas will become a good help to

state commerce and the supply and marketing co-operatives, along with the development of rural commodity production and the increase in the peasants' needs for industrial products.

For years, we kept stressing the need to make use of the commodity-money relationship and of the role of the law of value, but did little. In particular, ever since the "Cultural Revolution", preventing and opposing revisionism was raised, economic policies and measures designed to utilize the law of value were often criticized as capitalist tendencies because of a failure to grasp the real differences between socialism and capitalism. Analysis of the theory on commodity and money under socialism and the proper ways to make use of the commodity-money relationship and the law of value are important for China's economic management reform and modernization.

## 2. COMMODITIES UNDER SOCIALISM

Commodities, known to humanity for thousands of years, are products of labour exchanged between different owners under the conditions of a social division of labour. Commodity production and exchange existed in slave and feudal societies and reached their zenith in capitalist society, in which labour power, like every social product, became a commodity. That was why Marx opened his *Capital* with an analysis of commodities. He assumed that ownership of the means of production by the whole society would prevail and commodity and money would die out in a socialist society. In countries where socialism has triumphed, however, a commodity-money relationship of one form or another still exists on a fairly extensive scale and continues to grow in strength.

Why is it that commodity production and exchange inevitably exist in a socialist society and have to be developed within a given period of time? This is primarily because in a socialist society there are two systems of public ownership of the means of production. Labour power partially remains a possession of the individual and, consequently, the system of "to each according to his work" and the principle of material interests are followed. More specifically, the following commodity-money relationships exist in a socialist society:

1. Collective ownership exists everywhere in the countryside.



The collective economic units and the state, which represents the system of ownership by the whole people, are two different kinds of owners. The economic sector under collective ownership in the countryside consists of several million collectives, each of which functions as an independent accounting unit and owns its products of labour. The state has no way of establishing economic ties with the several million collectives except through a commodity exchange in which each side satisfies the needs of the other with its own products. During the exchange, each side has to consider its economic interests. The pricing of industrial and agricultural products, which determines the redistribution of the national income between the state and the collective economy, should follow the principle of exchange of equal values.

The need for the state to conduct commodity exchange with the collective economy is no longer a controversial question. However, we have to clarify through discussion whether the state should depend mainly on administrative means or on the law of value to see that agricultural production fulfils its needs and those of the people throughout the country, i.e., the industrial needs for agricultural raw materials and the consumer needs of the population. Stalin says that the law of value does not regulate but only influences socialist production. At the same time, he criticizes the proposal to underprice cotton, claiming that acceptance of the proposal would discourage the peasants from growing cotton. This shows that the law of value does regulate agricultural production. True, agricultural production must follow state plans. Of the thousands of agricultural products needed by the state and the people, including forestry, animal husbandry, side-occupation and fishery products, the state can at best incorporate a few dozen of the most important ones into its agricultural plans. And since the collectives are responsible for their own profits and losses, such plans should not be in the nature of directives but can only serve as guidelines. Each collective should have the right to decide on its own plan for the cultivation of crops as long as it fulfils the state quotas for a few key products, such as grain and cotton. With grain, for instance, three-fourths of the output goes to the peasants and their collectives while only a little over one-fifth is sold to the state; it is therefore unnecessary to direct the peasants in what should be grown and how. The state can easily accomplish its

purchasing plans by reasonable pricing through a correct application of the law of value. As for cash crops and animal, forestry, aquatic and native products, production may be regulated mainly through the pricing policy, that is, the operation of the law of value. For years, undue stress on the growth of heavy industry at the expense of agriculture and light industry, coupled with underpricing of agricultural products, aggravated the shortage of these products, leading to purchases on a requisition basis or by state quotas. Even to this day, non-staple foods are being rationed in many cities. If we raise the purchasing prices of these products by a reasonable margin and ensure the supply of food grain and fodder to peasants engaged in their production, the output will rise speedily to meet market demands. A proof of this is the fact that our measures to increase the purchasing prices of meat and eggs in 1979 brought about a transition from a shortage of these products to their over-supply. In the past, many localities were assigned compulsory production targets by official orders instead of being prompted to do things by economic means, resulting in a steady decrease in output. Sole reliance on administrative authority by those who do not know how to apply the laws of a commodity economy often backfires.

2. The workers and staff of state enterprises must still go through channels of commodity exchange to receive the consumer goods owed them under the principle of "to each according to his work". While everybody recognizes the sale of consumer goods to peasants by state commercial agencies as commodity exchange, there is dispute over whether distribution of consumer goods to the workers and staff of state enterprises is also such an exchange. Some comrades argue that this is no longer commodity exchange because the workers and staff already own the means of production; in other words, the state enterprises and the workers and staff constitute one and the same owner, and no commodity exchange can take place between an owner and himself. Although this is true as far as ownership of the means of production is concerned, the two are different owners in another sense, namely, labour power remains partially a personal possession of the worker, who receives a monetary wage as a reward for the amount of labour he provides for society and then buys a corresponding amount of consumer goods from state commercial agencies. Here the pricing of commodities

likewise affects the redistribution of the national income between the state and the workers and staff. In their choice of consumer goods, the workers and staff prefer those that are of high quality and inexpensive, buying more when prices are low and less when they are high. Stalin says correctly that the law of value regulates the sale of consumer goods.

Some people contend that instead of conducting commercial exchange, a socialist country may distribute consumer goods directly to the workers according to the labour time they provide. We have found this impracticable. Owing to the extreme complexity of consumer goods and people's needs and preferences, the state can only let people make their own choices. For this purpose, the goods have to be priced, hence the commodity-money relationship. Some comrades say that distribution according to work represents a relation of distribution and not one of exchange and, consequently, the state commercial agencies selling consumer goods to the workers and staff is a form of distribution according to work and not a matter of commodity circulation. In my view, this is also incorrect. There is no denying that the exchange process in this case is incomplete because nothing is sold by the workers and staff who would have sold their labour power under capitalism. But when they buy consumer goods with money, there arises a relation of commodity exchange. So far as the state is concerned, it sells the available commodities to the workers and staff to get back the money paid to them as remuneration for their labour.

3. We shall now discuss whether the exchange of products between state-owned enterprises is also an exchange of commodities. This question is even more complicated than the previous ones. Enterprises owned by the state belong to a single owner and not to two different owners, prompting Stalin to hold that their exchange is not really one of commodities but only retains the "outward integument" of such an exchange. It is true that this exchange differs in nature from the two previous types because, while it remains necessary here to observe the principle of equal exchange and take into account the influence of prices on profits, the workers and staff are virtually indifferent to the pricing of products; they do not look at such an exchange as commodity exchange since their enterprises turn over all profits to the state and they draw their state wages

regardless of profit. Stalin's view largely reflects the economic realities in the Soviet Union in his time.

In abstract, since all means of production and all products of labour of state-owned enterprises belong to the state, they may be subjected to unified accounting on a national scale. In reality, this cannot be done. Experience shows that it is necessary to conduct accounting at both the national and the local levels so that enterprises at the grassroots may each operate as an independent accounting unit. Unity should be coupled with independence. If an enterprise is to become a truly independent business accounting unit, it must be vested with power to handle its funds and products and the right to enjoy part of its profits. A state enterprise has to consider its own interests while representing those of the whole people or the state. Thus the state must assume its economic responsibilities towards an enterprise and recognize its economic interests when taking over its products; the same is true between enterprises when they exchange products under contract. For this reason, such an exchange takes on the nature of commodity exchange.

4. Exchanges of commodities are often conducted at trade fairs and may occur between collectives, between one collective and peasants of another collective, between peasants and urban workers, and among the peasants themselves. Such exchanges are not covered by state plans and do not account for a large portion of the national business volume. However, they are a necessary supplement to socialist state and co-operative commerce and an important means by which the peasants make up for each other's shortages and increase their income. They invigorate the rural economy and meet the needs of urban residents and the non-farming population in the countryside. Trade at the fairs should be stimulated as part of the effort to take full advantage of the market.

With the introduction of the system of contracted responsibility and the expansion of a diversified economy in the rural areas, especially the development of the market-oriented specialized households, enlivening commodity circulation has become a key link in creating a new situation in agriculture.

In China, commodity production has been going through a change in nature. As an economic category, all commodities share a

common characteristic. When division of labour appears in society and social products become the possessions of different owners, the owners have to exchange products among themselves on the principle of equality of values as a means of satisfying their wants. Thus social products become commodities, which acquire different features in different periods of social development. Beyond doubt, the division of social labour remains in a socialist society. But do social products remain the possessions of different owners? Clearly, this is the case in the exchange between enterprises under ownership by the whole people and those under collective ownership and in the exchange between one collective and another. But things are more complicated in the exchange between state commercial agencies and the workers and staff of state-owned enterprises. As stated earlier, insofar as the working people jointly own the means of production, the state and the workers and staff constitute one and the same owner. But under the system of distribution according to work, the principle of exchange of equal amounts of labour prevails. In this sense, the state and the workers and staff are different owners, and the exchange between them retains the nature of commodity exchange in general. As for the exchange of products among state enterprises, it is indeed an exchange between an owner and himself, between the state and the state, in a national sense. But when we look at state enterprises as independent business accounting units, each with its particular interests, the exchange of products between them still has to be an equal exchange based on the recognition of their respective economic interests as in an exchange between two different owners. This will be especially so when the enterprises are granted greater decision-making powers and are entitled to keep part of their profits, when the system is introduced whereby the enterprises can retain a fixed amount of profits, or when they begin to pay an income tax to the state instead of profit delivery — measures which will arouse a greater interest of the enterprises in their earnings. Such an exchange retains not just the “outward integument” but the very core of commodity exchange.

Compared with its counterpart in a capitalist society, commodity exchange in a socialist society shows both similarities as well as differences, which primarily stem from the fact that socialism is based on the public ownership of the means of production as well as

most of the products of labour. In a socialist society, where the capitalists no longer exist as a class, commodity exchange is one without the participation of capitalists. Even trade at the fairs, through which peasants from the collectives exchange or sell privately cultivated products, is under the unified leadership and control of the state. Such a commodity exchange is likewise different from that under capitalism. Denying the particularities of commodities under socialism, the Lin Biao and Jiang Qing counter-revolutionary cliques jumped to the conclusion that socialist commodity production inevitably generates capitalism and the bourgeoisie. This is entirely wrong.

In fact, commodity production and commodity exchange take on different features in different historical periods. Even under capitalism there are two kinds of commodity production — one conducted by the small producer and one by the capitalist, which are obviously different in nature. Not only are commodities under socialism different from those under capitalism, but commodity exchange under socialism also varies. While the commodity exchange between the two systems of public ownership is one in a fairly complete sense, that between state commercial agencies and the workers and staff of state enterprises is not entirely one in the original sense but a kind peculiar to the period of socialism. Although the exchange of products between state enterprises exhibits the nature of a commodity exchange, it has undergone significant changes in content. So, concrete analysis and different approaches are called for in dealing with different kinds of relations of commodity exchange.

### 3. COMMODITY CIRCULATION UNDER SOCIALISM

The different kinds of commodity exchange under socialism require different channels of commodity circulation. The main channels in China are: (1) an official supply set up which administers mainly the exchange of means of production between the production and construction units of the state; (2) the state commercial set-up which supplies consumer goods to the whole country; and (3) the supply and marketing co-operatives responsible for the purchase of

farm produce, including products from animal husbandry, forestry, fishery and rural side-lines, and for the supply of manufactured goods, including the agricultural means of production. While the state commercial agencies are oriented towards cities and may reach the rural market towns, the supply and marketing co-operatives are oriented towards rural areas, serving agriculture under collective ownership. The other channels of commodity circulation include co-operative stores and farm produce fairs in the towns as well as country fairs.

Public ownership of the means of production enables a socialist society to put an end to the anarchy in commodity exchange typical of capitalism. State planning departments are responsible for drawing up plans for the production and marketing of various kinds of products, ensuring a balance between supply and demand. The state also sets up bodies to administer the above-mentioned channels of commodity circulation, each responsible for the exchange of certain types of products. These administrative bodies direct the operations of commercial enterprises, including suppliers of the means of production, and co-ordinate the supply of raw and processed materials and of fuels and the production and marketing of products.

Under socialism, commodity circulation is administered through planning. A unified, planned socialist market is fundamentally different from the free market under capitalism. But socialist countries may borrow much from the relations of specialization and co-ordination established between goods suppliers, producers and sellers in capitalist countries to meet the needs of large-scale socialized production as well as from the corresponding forms of organization, such as specialized and integrated corporations. Following the methods of economic management in the Soviet Union in the 1950s, we used to draw a hard and fast line between production and circulation, and our circulation departments exercised too sweeping and too rigid a control over the exchange of commodities. Looking back, we find this practice unfavourable to socialist economic development. With the advance of the social division of labour, the general trend is that the production departments will be separated from the circulation departments in the interest of production growth. Nevertheless, some of the

producer units should have the right to market part of their products. In the case of some products, the producer and the customer may enter into direct contracts on the goods to be supplied without going through the circulation departments. In their handling of commodity exchange, the circulation departments should likewise make full use of the market and establish various channels to facilitate contacts between goods suppliers, producers and sellers. It is wrong to assume that a unified socialist market means a state monopoly exclusive of all other channels of circulation.

As leading administrative bodies, the State Bureau of Goods and Materials and the Ministry of Commerce should take charge of research on the balance between the demand for and supply of various kinds of products, reporting any imbalance to the planning and production departments for a readjustment of production plans. They should guide and adjust the business operations of the commercial enterprises subordinate to them, including suppliers of the means of production, by such means as setting up, cutting down or merging specialized and integrated companies. They should also establish links between producers and users and rechannel oversupplied goods to needy areas. The actual commodity exchanges should be left to the specialized and integrated companies and commercial networks.

#### SUPPLY OF MEANS OF PRODUCTION

When China launched its First Five-Year Plan (1953-57), the means of production were divided into three categories. Those in Category I were allocated by the State Planning Commission, those in Category II by the central ministries while only those in Category III were open to free exchange. But with so many varieties and specifications of products, the State Planning Commission could only draw up an allocation plan and had to leave the actual allocation to specialized departments. What really happened was this: After the State Planning Commission announced the allocation plan, the specialized departments each put forward a production and supply plan for its particular trade on the basis of the requests from the central ministries and the localities. A meeting was held for the placement of orders, which were accepted by the respective central



ministries or the bureaus of provinces or municipalities. Then the goods were supplied and delivered from the different trades or enterprises. In line with this practice, the central and local authorities set up their own purchasing and marketing agencies. The whole set-up, organized vertically along trade lines, created almost insoluble contradictions between producers and users. Things came to a head towards the end of the 1950s when many of the supplies to be provided under the contracts were unavailable because less was produced than promised in the allocation plans. The enterprises went their own ways to get what they needed, and the authorities in charge of allocation often could not get supplies from subordinate enterprises. Purchasers from industrial and commercial enterprises rushed for goods everywhere — a sign of the sharp contradiction between supply and demand.

In the early 1960s the central authorities established the General Bureau of Supplies, which began to distribute the major means of production through specialized companies and their local branches. The quotas were allocated by the higher administrative bodies to the lower ones and the actual means of production were distributed on a trial basis by the General Bureau of Supplies and its subordinate agencies to various economic zones. Like those under the Ministry of Commerce, the specialized companies under the bureau organized the supply of the means of production through the market. This was a much more flexible approach and represented a big advance over the practice in the 1950s. It was a pity that the "Cultural Revolution" started before there was time to complete this reform. The new endeavours were denounced as an attempt at capitalist restoration and the new institutions were abolished, upsetting the whole allocation system. As it was hard to get supplies through normal channels, purchasing agents again haunted factories and mines. Practically all enterprises tried to store up anything they could get hold of. Once the capital goods were put in warehouses, they might stay there for good. This was why people said that they "ended their lives the moment they were delivered". As the stockpiles grew larger, the circulation became slower. Efforts have been made to straighten things out since the collapse of the Gang of Four, but the question has not been solved at its root.

The serious confusion in the supply system today is caused by

many factors. First of all, imbalances in the economy have resulted in a discrepancy between supply and demand with respect to major items like rolled steel, coal, cement and timber. In addition, serious waste on the part of users and the tendency to base allocation plans on unguaranteed supplies add to the difficulties in actual distribution. Furthermore, the production plans are subject to frequent change, upsetting the original supply plans and contracts and causing overstocking and waste. As for the supply work, the main trouble today lies in the man-made shortage of goods for circulation caused by the reserves built up in the different trades, localities and enterprises which are not sure of getting what they need from the state. For example, rolled steel is simultaneously in short supply and overstocked. The major reason for this state of affairs is the irrational allocation system; the situation is aggravated by the inadequate provision of varieties and specifications to meet the needs of production and construction units.

In view of all this, the state should strengthen its control over the supplies designated for nationwide allocation. Except for cases where producers and users may enter into direct contracts (such as on the supply of coal to large iron and steel works and power stations and of rolled steel to key construction units and large machinery plants), the supplies to scattered users must be handled according to planned quotas by specialized companies set up by the allocation or production authorities so as to eliminate overstocking and waste at each level. Like the commercial departments, the allocation departments should conduct commodity exchange and set up marketing agencies through which users may freely choose the supplies they need and purchase them by the assigned quotas. In other words, distribution by administrative methods should be changed to commodity exchange.

The distribution of the means of production is not quite the same as that of consumer goods. The former involves a relatively small range of goods and a fairly fixed number of users insofar as the supplies under Categories I and II are concerned. With respect to the many products which are made in a small range of specifications but are needed in large quantities, producers and users may sign contracts on a fairly permanent basis without having to go through marketing agencies. Thus the allocation of the means of production

may take the following three forms:

1. Goods for special use by permanent customers in large quantities may generally be supplied through direct contracts with producers. Examples are special equipment for capital construction units and raw materials and fuels which are needed by major enterprises in large quantities but of fixed types and specifications. This form should be adopted wherever producers and users can make direct contacts and sign long-term contracts, eliminating intermediate links. It can be applied on a much wider scale when supply is balanced with demand.

2. General goods for scattered users are suitable for distribution by the marketing agencies, i.e., the specialized companies set up by the allocation authorities. Users will benefit from production departments or major enterprises, such as specialized or integrated production companies or big plants, which have their own marketing agencies. This will be much more practical than the allocation authorities trying to take everything into their hands. For example, iron and steel, classified as supplies to be allocated by the State Planning Commission, are so varied that it is preferable for specialized companies to handle their distribution. The same thing applies to many kinds of general machinery and equipment, especially parts, spare parts, and measuring and cutting tools. The widest possible marketing network should be established for such items in universal demand, allowing for on-the-spot purchases and eliminating the need for every user to build his reserve. In a vast country like China, the supply companies should be administered by authorities at different levels under a unified leadership. If the various departments, localities and enterprises are relieved of their present burden of procuring supplies and marketing their products and hand over the job to specialized companies, there will be no need for purchasing agents to hunt for goods. In addition, the present reserves can be cut down by billions of yuan, making for a full use of financial and material resources.

3. Supplies under Category III should be exchanged freely. Producers should be allowed to market their own products, and users may purchase anything they need. Supply agencies, commercial departments and supply and marketing co-operatives should facilitate the timely exchange of such products with the co-operation

of production departments.

#### SUPPLY OF CONSUMER GOODS

In China, consumer goods are handled more flexibly than the means of production. However, urban commerce is basically monopolized by state commercial departments which, in the absence of competitors, easily acquire bureaucratic habits, so that service at many "government shops" is even inferior to that at private shops, doing harm to the prestige of socialist commerce. The channels of circulation are too few, the links too many. Industrial goods have to go through purchasing and supply stations at two levels and wholesalers at a third level before they reach the retail shops. Each link adds some circulation expenses to the retail prices to be borne by the consumer. Thus the solution is to increase the channels and cut down the links. For instance, the state-run factories should be allowed to sell part of the products they produce, namely, products not covered by state monopoly purchase and marketing; retail shops should be allowed to purchase goods directly from factories, namely, goods as described above; co-operative commerce should be developed in urban and rural areas, and also individual commerce licensed by bureaus of industrial and commercial administration. In addition, communes and their subdivisions should be allowed to sell, in cities either separately or by setting up joint units, farm and side-line produce which is not covered by state monopoly purchase and requisition purchase or which is surplus after such purchases. Retail shops should be free to purchase from wholesalers at any level. Freed from some of their usual burdens, the purchasing and supply stations and wholesale shops may do a good job of channelling surplus goods to needy areas and exploiting the sources of more and better varieties of goods. The leading role of state commerce will not be weakened because of the changes.

Experience shows that state monopoly over the purchase and distribution of a great many items of daily necessity easily leads to a discrepancy between production and market demands, causing a chronic shortage of some products and an almost perpetual overstocking of others. This is because, in the case of products

earmarked for state purchase and distribution, the commercial departments have no choice but to purchase them from the factories in any type or quantity in which they were produced according to plan. In this way, the varieties and specifications of goods cannot be fully suited to consumer needs. The procedure has to be reversed. The commercial departments should base their purchasing plans on market demands and the industrial departments should base their production plans on the purchasing plans of the commercial departments. In addition, the commercial departments should suggest to co-operative factories, neighbourhood factories and commune enterprises the production of daily necessities in demand which are not provided by state enterprises, or may also ask the latter to produce the same. Farm produce and side-line and native products in demand may be purchased either through the supply and marketing co-operatives or through commune enterprises. State commercial departments should be vested with power to reject inferior or unmarketable goods. If the factories consider them marketable, let them handle the sales. But will the change from state purchase and distribution to the free choice of goods and the sales by producers upset market stability? No. Even some fluctuation is far better than "a pool of stagnant water". On balance, the advantages will outweigh the disadvantages because production and circulation will be better suited to the needs of the market and the consumer.

Among the channels of commodity circulation in China, the most serious bottlenecks are found in those for the purchase of farm produce and side-line and native products. These products include many varieties, come from scattered producers and are difficult to transport, posing too heavy a task for the supply and marketing co-operatives. In the early 1950s, the channels of exchange between town and country worked fairly well because, while the supply and marketing co-operatives were helping agricultural production and promoting the interflow between town and country, peddlers took care of the transportation and sales of farm produce and side-line and native products not covered by the co-operatives. After the means of production were basically placed under socialist ownership, nearly all the peddlers were transferred to other jobs. Rural communes, brigades and teams were only allowed to engage in agricultural and side-line production; their attempts to venture

into business by taking their farm produce and side-line and native products to the market were banned as "capitalist activities". Obviously, the supply and marketing co-operatives couldn't handle the great number of items in these categories. Consequently, although the agricultural departments issued circulars almost every year for peasants to grow more farm and side-line produce needed on the market and called on the communes to pay attention to the autumn harvests of such "minor crops", the output of many products dropped as much as 70 to 80 per cent in some areas as compared with the early 1950s. This meant a sharp drop in the income of the peasants and a scantier supply of such products to the cities.

To eliminate the bottlenecks, enterprises run by the communes and their subdivisions should be allowed to purchase, transport and market such products. They may sell them to the supply and marketing co-operatives, to the state shops, or to the urban population directly. They may also set up shops in cities and towns as a supplement to the state-owned ones to sell vegetables, meat, fish, poultry, eggs and other non-staple foods. These products are now going through wholesale centres and retail shops before they reach consumers, involving a number of intermediate links and resulting in much spoilage. The peasants are complaining that the purchasing prices are too low, the consumers are complaining that the selling prices are too high, while state commerce has to sustain the losses. The principle of "walking on two legs" should be applied here. The non-staple food companies may continue to operate in large and medium-sized cities to handle the larger volumes of supplies and especially to balance surplus with deficiency in various areas. The other items may be left to the care of the communes, brigades and teams and the peasants. It should be made clear that the transportation and marketing of farm and side-line products by commune enterprises are a form of socialist commerce and not a capitalist undertaking. How can anyone say that it is "socialist" to let the native and mountain products rot in the mountains and "capitalist" to bring them to urban customers? By such logic, how can one uphold the superiority of socialism?

Will the increase in the channels of commodity circulation and some competition disrupt the unified socialist market and result in anarchy? Of course not. The state commercial departments and the

supply and marketing co-operatives enjoy absolute predominance over the market. Permitting certain state factories and commune enterprises to market their own products doesn't mean an end to their distribution by state commerce, which has large funds and an extensive network and to which the factories and communes would gladly hand over the bulk of their products if it were more effective. In particular, balancing surplus with deficiency in the various areas is usually a job beyond the capacities of factories and communes and so can only remain the responsibility of state commerce. The marketing of locally produced and consumed industrial goods and farm produce by their producers, i.e., by the factories and communes, will be of much help to state commerce and will not disrupt the unified socialist market. In commercial work it is likewise necessary to follow the principle of "strict planning in major affairs and flexibility in minor ones", and there are more advantages than disadvantages in sponsoring some market competition. Monopoly by state commerce without any competition will not help promote production or satisfy the requirements of society. Neither will free competition without leadership by state commerce be beneficial.

Country markets and co-operative commerce in cities and towns should also be expanded as channels of circulation. The commercial networks in large and medium-sized cities generally do not provide enough nearby shops and stands for residents. More co-operative shops would make up for the deficiency and create jobs. Some people are worried that expansion of urban co-operative trade and country markets would give rise to capitalist activities. As a matter of fact, such worry is unnecessary. We should not give up eating for fear of choking. In case of anyone trying to disrupt the market, the departments of industrial and commercial administration may tighten their control, and state commercial departments and the supply and marketing co-operatives may step in to squeeze out the capitalist elements whenever necessary. Capitalism cannot run rampant as long as the socialist economy enjoys absolute predominance.

#### 4. MONEY UNDER SOCIALISM

Money is a product of the spontaneous development of commodity exchange, and no fairly developed commodity exchange is possible without money as a medium. Since commodity production and exchange remain quite widespread in a socialist society, money is bound to exist.

Money in a socialist society is still a universal equivalent of commodities, but it is essentially different from that in a capitalist society. Money is no longer a means for the capitalists to exploit the working people, but a tool in the hands of the proletarian state and the working masses to serve the socialist economy. It embodies the socialist relations of production and, under the tight control of the proletarian state, cannot normally be converted into capital.

Money plays an important role in the socialist economy. It is still a measure of the value of various products and a means of circulation or a medium of exchange. It is used to calculate the value of products by state planning, financial and economic departments and by industrial and commercial enterprises. The overall balance in a national economic plan is illustrated by indices worked out in terms of both material products and money. All this shows the role of money as a measure of value. Its role as a means of circulation is chiefly manifest in retail trade. The exchange of commodities in large quantities among state enterprises and collective economic units is conducted not by cash payment but through bank account transferences.

Secondly, in a socialist society, money retains its role as a means of payment and storage. Its role as a means of payment finds expression in the taxes and profits turned over by enterprises to the financial authorities, the funds allocated by the financial authorities to enterprises, offices and other institutions, the loans granted by banks to state enterprises and collective economic units, and the repayment of such loans by the latter, etc. State enterprises, collectives and the working people deposit their money in banks, using money as a means of storage.

To make sure that money performs these functions, it is necessary to maintain its purchasing power. In other words, the amount of money, when recovered, should basically be worth the same amount



of social products as it was at the time of issuance. Only thus will there be no loss to the creditor or the debtor. In other words, it is necessary to stabilize the value of money as much as possible.

However, as production grows and labour productivity keeps rising, the per unit value of a product, that is, the socially necessary labour time expended on it, drops steadily. If the value embodied in money remains constant, the prices of various commodities will keep dropping. The solution is to devalue money in proportion to the rise in labour productivity. For instance, when social labour productivity doubles, which means a drop in the value of all commodities by 50 per cent, the value of money will have to drop by the same ratio so that the same amount of money will still be worth the same amount of products.

The socially necessary labour time embodied in commodities is a highly complicated matter of which an accurate calculation is hardly possible because it contains not only the living labour expended in a particular enterprise but the materialized labour transferred from other enterprises. Historically, money as a universal equivalent was always identified with a particular social product. In a fairly developed commodity economy, gold or silver serves as money. They can serve as money because, like all other commodities, they too contain value, i.e., socially necessary labour time. As in the case of all other products, a steady rise in labour productivity continually cuts down the socially necessary labour time consumed in their production. From a long-term point of view, the labour time represented by such metallic money will gradually decrease as is true of all other commodities.

This quality of metallic money makes it possible to maintain the relative stability of prices. When labour productivity in the production of gold or silver rises at the same speed as that in the production of other social products, prices remain unchanged. When the former rises faster than the latter, prices go up steadily. When the former rises more slowly than the latter, prices gradually go down. Therefore, the use of gold and silver as money maintains the stability of prices only in a relative sense. The influx of cheap gold into Western Europe in the 16th century boosted prices in several countries there by about three times within one century. In China, the fairly rapid decrease in the value of silver has also forced prices

up in the last few centuries.

After a major economic crisis broke out in the 1930s, capitalist countries abandoned the gold standard one after another and adopted a paper money system. Nevertheless, the governments of various countries maintained official stipulations on the gold content of their money and on their minimum gold reserves. Whenever necessary, they sold gold at official rates to withdraw surplus paper money from the market in an effort to stabilize the value of money and the prices of goods. After the outbreak of the world monetary crisis in 1971, these governments were no longer in a position to guarantee their official gold exchange rates and the United States of America announced its decision to suspend the exchange for gold at the official rate, causing a sharp rise in the gold price. The price rose from the official U.S. rate of 35 dollars per ounce in 1971 to almost 200 dollars by the end of 1974. In early 1975, the International Monetary Fund decided to disassociate the currencies of various countries from gold. The price dropped to under 100 dollars in mid-1976, and has fluctuated up and down ever since. Disassociating paper money from gold has prevented sharp rises and drops in prices of goods in spite of the violent fluctuations in the gold price.

China's Renminbi has never been tied to gold or silver but is linked directly with various kinds of products. The socialist state controls the bulk of social products and sets their prices, which are not determined by a spontaneous market process. Thus it is in a position to maintain price stability without relying on gold or silver. Up till now China has not defined the gold content of its currency, set the official gold price or announced a minimum gold reserve, but it has maintained essentially stable prices since 1950.

Influenced by a fetishism for gold, many bourgeois economists consider it inconceivable that China's Renminbi, which does not have an official gold content and is not backed by a minimum gold reserve, should have guaranteed price stability. But there is nothing surprising about this. Though the country has not announced a minimum gold reserve, the various kinds of commodities at the disposal of its state commercial departments are worth many times the value of the money in circulation, which has been issued at an officially controlled amount. Whenever the amount of money in circulation exceeds market needs, the state commercial departments

can withdraw the surplus by putting an extra quantity of commodities into circulation. This stabilizes both the value of money and the prices of goods. Reviewing the results of the First Five-Year Plan of the Soviet Union in early 1933, Stalin stated that the stability of Soviet currency was secured, first of all, by the vast quantity of goods held by the state and put into commodity circulation at stable prices.<sup>1</sup> This is also true of China.

There are also large reserves of commodities in capitalist countries. But they are scattered in the hands of many capitalists who, at any sign of trouble, would either go into hectic buying at high prices or dump their goods on the market at a fraction of their costs, aggravating price fluctuations. In a socialist country commodity circulation is organized by state commercial departments at government-planned prices while all speculation disruptive to the market, such as panic buying of goods and sales at exorbitant prices, is strictly banned by the authorities.

Many other economists hold that paper money must represent a certain amount of gold or silver, without which there would be no objective measure of its value. Practice shows that such a consideration is unnecessary. Instead of going through the medium of gold or silver, China's Renminbi is linked directly with various commodities, and its value is measured by an objective standard, namely, a synthesis of the price indices of certain categories of social products. During the revolutionary wars in China, initial experience was gained in the revolutionary bases in checking the value of money against price indices. At the founding of New China, the masses lacked confidence in the Renminbi issued by the people's government because they had suffered for more than a decade from the hyper-inflation in Kuomintang days. The synthetic price index (then called a "unit converted from commodity prices") of five commodities (grain, cloth, coal, cooking oil and salt) was used successfully as the measure to pay wages and repay debts. For years, China has been taking the synthetic price index of a number of major products as the basis for adjusting prices and determining the amount of currency to be issued, maintaining the stability of the value of its

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<sup>1</sup>Cf. J.V. Stalin, "The Results of the First Five-Year Plan", in *Problems of Leninism*, FLPH, Moscow, 1953, p. 534.

currency and the prices of goods. Using the synthetic price index of a number of products instead of the price of a single commodity (gold) as the standard for examining currency value, China has developed a new monetary system. Possessors of Renminbi do not think of the gold or silver it can be changed into, but are interested in how much grain, cloth and other important means of consumption it can buy. China has no need for a gold standard.

Some comrades hold that the severance of paper money from gold is at variance with what Marx says about money in *Capital*. In fact, what he says there refers to the situation in his time. Anticipating a new stage in the development of the monetary system, he writes in *A Contribution to the Critique of Political Economy*:

Paper money issued by the state and given a legal rate is an advanced form of the *token of value*, and the only kind of paper money which directly arises from metallic currency or from simple commodity circulation itself. *Credit money* belongs to a more advanced stage of the social process of production and conforms to very different laws.<sup>1</sup>

He also says:

In the circulation of tokens of value all the laws governing the circulation of real money seem to be reversed and turned upside down. Gold circulates because it has value, whereas paper has value because it circulates. If the exchange-value of commodities is given, the quantity of gold in circulation depends on its value, whereas the value of paper tokens depends on the number of tokens in circulation. The amount of gold in circulation increases or decreases with the rise or fall of commodity-prices, whereas commodity-prices seem to rise or fall with the changing amount of paper in circulation.<sup>2</sup>

These elucidations by Marx fully conform to the actual conditions of money circulation today.

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<sup>1</sup> Karl Marx, *A Contribution to the Critique of Political Economy*, Lawrence & Wishart, London, 1971, p. 116.

<sup>2</sup> *Ibid.*, pp. 121-22.

The paper money issued by the state and given a legal rate is bound to be governed by the law which Marx describes here, namely, the amount of money in circulation must correspond to the needs of market circulation. If the amount of money issued exceeds the needs of market circulation by a big margin, the surplus money exerts a pressure on the market, causing a shortage of commodities or even compelling the state to raise the prices of certain undersupplied commodities. In particular, this will force up prices at the trade fairs which the state cannot easily control. Therefore, the state must balance its issuance of money with the needs in market circulation. To this end, it must balance its budget and, most important of all, should not try to make up financial deficits by issuing more money. At the same time, it must maintain a balance between income and payment in credit operations and between social purchasing power and commodity supply. In normal circumstances, a socialist country is fully capable of achieving a balance in all these respects through its national economic planning, maintaining stability in money and prices.

## **5. THE DEVELOPMENT AND DISAPPEARANCE OF COMMODITIES AND MONEY**

Commodity and money in a socialist society must also go through a process of development involving both quantitative and qualitative changes. The qualitative changes generally accompany the changes in the system of ownership.

The first of these changes took place during China's First Five-Year Plan period. At that time capitalist industry and commerce and a multitude of individual peasants and handicraftsmen still existed, and the commodities produced were similar to those in the old society. However, the state economy had established leadership over capitalist industry and commerce by assigning processing jobs to them, placing orders for their manufactured goods and making them dealers in state goods. It had also established leadership over the small individual producers through state commerce and supply and marketing co-operatives. Thus the products turned out were no longer at the complete disposal of the

capitalist class in the service of the capitalist economy, but essentially under the control of the socialist state in the service of the socialist economy.

An even greater change in commodities began to take place when the means of production in China were put under socialist ownership. While commodity production and exchange in China are not totally different from those of the old society, they are already different from those under capitalism, as we have explained in Section 2 of this chapter.

Commodity production and exchange will undergo much expansion in China. The mechanization and modernization of agriculture require special cultivation of certain crops in communes, brigades and teams as well as in various areas which would form different crop belts. There will be a large-scale division of labour between crop cultivation, animal husbandry, forestry and fishery, which will naturally be accompanied by their co-ordination, such as the interdependence between crop cultivation, animal husbandry and forestry. When that happens, labour productivity will rise substantially and the bulk of products will certainly be sold as commodities. At the same time, a great deal of farm machinery, fuel, electricity, chemical fertilizer and pesticide will be needed for agricultural mechanization, while seeds, fodder and young animals will have to be supplied to production units. Money circulation has to be expanded along with the change from unified farm production management by the production teams to the system of output-related responsibility. Cash income and payment will grow several or scores of times in the course of agricultural modernization, which cannot be realized without a radical expansion of commodity production and exchange.

In the process of modernization, commodity production and exchange will gradually change their nature. Substantial development of industrial and agricultural production and socialist commerce in the future may gradually lead to the replacement of trade fairs by state commerce and supply and marketing co-operative commerce or by agricultural-industrial-commercial combines which integrate the state economy with the collective economy. With the change-over to a unitary system of public ownership by the whole society, the exchange between the two systems of public ownership

will disappear accordingly, and all that remains will be the exchange of consumer goods between the economy under ownership by the whole people and the individual labourers plus the exchange between enterprises owned by the whole people. Finally, when the higher phase of communism is attained, the distribution of consumer goods will no longer take the form of commodity exchange, but gradually change over to direct distribution to the whole people according to their needs, and all that remains will be the exchange of products between enterprises owned by the whole society. The calculation of the expenditure of labour will be conducted purely for the purpose of accounting and will have nothing to do with the material interests of an enterprise or an individual, and money will no longer be needed as a medium of exchange.

Commodity, money, value and price are all historical categories. They are not material objects, but reflect the mutual relations between men through the medium of material objects. They arise in certain historical conditions and will fade out in others. When the higher phase of communism is attained, commodity, money, value and price will disappear as particular historical forms. When commodity and money die out, socially necessary labour time, the substance of value, will continue to exist and the calculation of labour time will remain an important task in economic work. Engels says: "Economic value is a category which belongs to commodity production and disappears with it ..., just as it did not exist before commodity production."<sup>1</sup> It is obviously a departure from Marx's standpoint to equate value with the substance of value in an attempt to prove that what Marx generally refers to as value will continue to exist in the higher phase of communism.

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<sup>1</sup> Engels' letter to Karl Kautsky, September 20, 1884, in Marx/Engels, *Werke*, Dietz Verlag, Berlin, 1973, Band 36, S. 210.

## Chapter VI

### THE LAW OF VALUE AND CHINA'S PRICE POLICY

#### 1. THE LAW OF VALUE IN A SOCIALIST ECONOMY

The objective laws of development of the socialist economy, including the law of value, must be observed in all economic work in a socialist society.

In his *Economic Problems of Socialism in the U.S.S.R.*, J.V. Stalin points out that the law of value operates in a socialist society because of the existence of commodity production and exchange. Like other objective economic laws, the law of value manifests itself when obeyed, but punishes when defied. The Soviet Union was once punished by the law of value; so were we in certain respects.

What is the law of value? It is generally stated in many political economy textbooks as follows:

The magnitude of value is determined by the amount of socially necessary labour time expended on a product, and commodities must be exchanged at their values. Thus the price of a commodity must correspond to its value.

Such a statement of the law is basically correct but incomplete. The real situation is: When the supply of a commodity meets the demand, its price roughly corresponds to its value. When there is an imbalance between supply and demand, its price varies from its value. Because there is often an imbalance between supply and demand, the correspondence between price and value is relative and temporary while the difference between them is absolute and frequent. Some comrades say that the law of value is contradictory to the relation between supply and demand and that the imbalance



between supply and demand undermines the law of value. This understanding of the law of value is incomplete. These comrades fail to see that, like every other objective economic law, the law of value is merely a tendency. In fact, the law of value operates through price fluctuations which centre around value. Everything is in a constant state of motion. Any law is a law of something in motion. To know the law of value in all its aspects, therefore, one must examine it in its state of motion.

The prices of commodities rise or fall with the constant changes in supply and demand. When supply falls short of demand, prices rise above values. This leads to a rise in production and supply, a drop in demand and a situation where supply exceeds demand. Then prices drop below values. When that happens, the relation between supply and demand changes in the opposite direction: production drops, demand rises and prices go up again. Value and price, production and demand influence each other and are in a constant state of flux — such is the law of value in a state of motion. A thorough understanding of the law means to see it in a state of motion. Although price often varies from value, value is the centre of its upward or downward movement. Therefore, it would be an over-simplification of the law of value to think that it always requires a full correspondence between price and value.

When we speak of the function of the law of value as a regulator, we mean that price fluctuations lead to a rise or drop in the quantity of goods in supply and demand, which in turn leads to further price fluctuations; in the process the means of production and labour power are distributed and redistributed among the different departments of the economy. In a capitalist society, owing to anarchy in production, the production and marketing of all commodities are regulated spontaneously by the law of value through price fluctuations. The law of value regulates prices spontaneously to achieve a relative balance between supply and demand. This relative balance is made possible by a constant destruction of balance (imbalance) or a constant fluctuation in balance. A major fluctuation makes some people rich but impoverishes or even bankrupts others.

In a socialist society, the means of production have been placed under public ownership and anarchy in production has been replaced by planned development. The production and distribution of all

major products are conducted according to state plans, and their prices are fixed by the state. Thus we often say that the socialist economy is regulated by state planning. This statement is basically correct but should not be interpreted in a mechanical sense. Wherever commodity production and exchange exist, the law of value must operate. How does it operate? Stalin says that it "influences" production under socialism. In my opinion, "to influence" means "to regulate" in a particular manner. The difference is that the law of value, which is not likely to regulate production spontaneously under normal conditions, is often used by the state in a conscious effort to regulate production. Through its price policy, the state utilizes the law of value to regulate the production and marketing of all products. The state is the one that does the regulating through its plans. This is why we say state planning is the chief regulator in a socialist economy.

Why must a socialist country utilize the law of value to regulate the production and marketing of products? It is because, as long as commodity production and exchange exist, whether in the exchange of commodities between the state and the collective economy or in the labourers' purchase of consumer goods, fluctuations in price inevitably affect the material benefits of both parties in the exchange as well as the volume of the commodities produced and sold. Thus the state has to use its pricing policy to achieve a balance between supply and demand. In the exchange of products between state enterprises, price changes affect their profits. By our conventional practice, an enterprise is not affected by its profit rate because it turns over the bulk of its profit to the state, gets state compensation for its losses and generally pays its workers according to a fixed scale. Thus it takes little interest in price changes. This state of affairs gives some comrades the impression that the law of value doesn't seem to function as a regulator. Such a view reveals a lack of respect for the law of value. The equal treatment of all enterprises regardless of their gains or losses is detrimental to the initiative of the enterprises and their workers, as well as to production and the workers' well-being. To make better use of the law of value, we should allow enterprises to keep part of their profit for business fund. This will link their economic performance with their material interests and those of the workers.

An economic unit under collective ownership, such as a people's commune or any of its subdivisions, assumes sole responsibility for its profits and losses. For it, state plans should serve only as references, not orders. Once it fulfils its quota for sales to the state, a collective economic unit should be able to plan its own production, with, of course, guidance by state plans. The state only sets quotas for a few major products but not for most of the secondary farm and side-line products. It signs contracts with the collectives for the purchase and marketing of the secondary products at given prices, or buys them without contract. Thus the collectives produce and sell more when they find the prices favourable, and less or none when they find the prices unfavourable. Here the regulatory function of the law of value is obvious. The state should give proper orientation to production by utilizing the law of value through its pricing policy. Instead of giving arbitrary orders, it should make timely adjustments in prices by examining changes in labour expenditure on products and developments in supply and demand so as to fulfil its purchasing plans and ensure market supplies. For years, many of our comrades failed to utilize economic means and issued arbitrary orders in violation of objective laws. For this we have been punished by objective laws and sustained serious losses. We need to take firm steps to change this.

On the principle of "to each according to his work", the state pays wages to workers according to the quantity and quality of their work, while the workers use their wages to buy consumer goods. As there is a great variety in both consumer goods and individual needs, each person must be given the choice to buy whatever he wants. But who does not prefer the less expensive, higher quality goods to the more expensive, lower quality ones? Here again the law of value is clearly the regulator. The state can only use its pricing policy to adjust sales rather than forcing purchases. Rationing is necessary when supply falls short of demand as in the case of a few essential commodities. Even in the sale of these commodities, consumers must still choose from an array of quality, colour and design. In this connection, prices are important to sales.

The principle of exchange of equal values should also be generally followed by state enterprises in their exchange of products. This will bring prices as close to values as possible to provide a sound basis for

business accounting and the application of the principle of material interests. If the price of a certain product is much higher than its value, the enterprise which produces it receives an extra profit through an exchange of unequal values, while the enterprise which uses it has to pay a higher cost and loses part of its profit. In effect, some of the surplus goods created by the latter are transferred to the former through unequal exchange, affecting the accuracy of business accounting and the amount of profit to be retained by either enterprise. This is why state enterprises must observe the law of value when exchanging products, and must not create variances between prices and values by arbitrary decision.

That a socialist country must be good at utilizing the law of value is no longer a controversial point. However, there are still different views on whether the sphere of operation of the law of value can and should be restricted under socialism. Some comrades hold that since the law of value is an objective law, it cannot and should not be restricted. I think otherwise. In my view, its operation can be restricted. As is generally known, the law of value is a law of commodity economy, and commodity production has always been based on the private ownership of the means of production and characterized by anarchy in production. Now that we have essentially abolished the private ownership of the means of production and eliminated anarchy in production, the decisive role in production has been taken over by something else, namely, the law of planned and proportionate development of the national economy and the state plans that reflect this law. As long as we make good use of the law of value consciously, it can no longer operate as a spontaneous regulator. This shows that the operation of the law of value is restricted. An important example of such restriction is the practice we have had for years of rationing some vital items of consumer goods to ensure that the people's livelihood is not affected by a rise in prices caused by the deficiency of these items.

Nor do I agree with the general statement that the law of value does not perform a regulatory function under socialism. In fact, we have often used it to regulate the quantities of many products to be produced or sold. Although the prices of these products are set by the state, if they show too much variance from the values, they will create a serious imbalance between supply and demand, forcing the

state to readjust them by the law of value. This same law performs its regulatory function to a greater extent in cases where the prices cannot be fixed by the state by a single standard but are set through negotiations between producers and sellers (between the industrial and commercial departments). Over the years we have made too little use of the law of value and put too many restrictions on it. This has caused considerable losses to our economy.

Some comrades point out that since the law of value is an objective law, it is bound to operate *spontaneously*. This is true in a sense. Even when the law of value is utilized by the state to regulate certain economic activities, it operates by itself, not by orders. But this does not mean that its operation is always unrestricted. In fact, its operation can be restricted by that of another objective law. Similar phenomena also exist in nature. For example, a kilogramme of iron and one of cotton dropped from an airplane at the same time should reach the ground simultaneously because they are drawn by the same amount of terrestrial gravitation. But they do not, because terrestrial gravitation is conditioned by another objective factor — air resistance. The operation of the law of value is likewise restricted under socialism because, although value is the basis of price, it is not the only factor that determines price. Planned prices in a socialist country are influenced by the basic economic law of socialism<sup>1</sup> and the law of planned and proportionate development of the national economy. Under the conditions of socialism, the state consciously sets planned prices for major products in the light of the law of value and other economic laws, and these prices are not regulated by the law of value spontaneously. Of course, if we create too much variance between the planned prices of these products and their values in violation of the law of value, there will be a disruption in the balance between supply and demand with respect to these products, compelling us to change the originally planned prices. Therefore, when we admit that the operation of the law of value is restricted in a socialist society, we should not think that it has ceased

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<sup>1</sup> J.V. Stalin defines the basic economic law of socialism as “the securing of the maximum satisfaction of the constantly rising material and cultural requirements of the whole of society through the continuous expansion and perfection of socialist production on the basis of higher techniques”. (See *Economic Problems of Socialism in the U.S.S.R.*, FLP, Beijing, 1976, pp. 40-41.)

to function, still less should we try to “restrict” objective laws by our subjective wishes — a course which will have us running against a stone wall.

## 2. USE OF THE LAW OF VALUE

Under the conditions of socialism, the state is in a position to utilize the law of value consciously because it sets the prices of major products. But this is no easy job. Many of our comrades used to think that the price of a product is closer to its value in a socialist country than in a capitalist country because the socialist state maintains a balance between supply and demand through its planning and so keeps prices free from the impact of any imbalance between supply and demand. Experience proves the situation to be quite the contrary. The truth is that prices may vary from values to a greater extent in a socialist country than in a capitalist country. In a capitalist country, variances are automatically eliminated by the law of value. In a socialist country, the authorities taking a bureaucratic attitude may ignore the imbalance between supply and demand and fail to adjust prices, causing the difference between price and value to last a long time. Not until the situation becomes so severe that production is menaced will the state be compelled to adjust prices.

While handling prices, we must pay close attention to the law of value. Take the price parities between industrial and agricultural products. The “scissors” difference between them, a legacy from the past which cannot be eliminated speedily, remains a serious handicap on extended reproduction in agriculture. In the last twenty years and more the purchasing price for farm produce has been doubled and the “scissors” difference seems to have narrowed. But agriculture is easily affected by natural conditions, particularly the soil. Although there has been much improvement in the conditions for agricultural production, labour productivity has increased very little and production costs have risen with the growth in output in many areas and units. Things are different in industrial production, where labour productivity rises much faster

and higher productivity leads to lower costs. This calls for a constant readjustment of the price parities between industrial and agricultural products along with the growth in production. There were few readjustments in prices during the ten chaotic years of the "Cultural Revolution". The price of food grains remained unchanged for twelve years. The "scissors" difference between agricultural and industrial prices, which had once narrowed, widened again. The situation in grain production is like this: In some of the high-yielding areas, a higher output does not bring a bigger income because of the rising costs of production, and extended reproduction is being financed from the earnings of enterprises run by communes, brigades or teams. In some of the low-yielding areas, the collectives are earning hardly enough to maintain even simple reproduction, which is being maintained by cutting the pay for the peasants to a level where they cannot meet their minimum requirements and have to fall back on their private plots and household side-lines. All this tells us that, to achieve a faster rise in agricultural production, we must implement the agricultural policies of the Party and, in particular, make up our minds to readjust the prices of industrial and agricultural products, narrow the "scissors" difference between them, and gradually effect an equal or nearly equal exchange. In 1979, the government decided to raise substantially the purchasing prices for agricultural products. This has added much impetus to agricultural production.

To prevent an anarchic economic development, the socialist state must strengthen its price planning and control. But there are tens of thousands of social products in several million grades, specifications and varieties, for which the state can hardly set prices on a unified basis. The prices of major products which have been placed under watertight state control, like grains and coal, generally tend to be too low because of a preoccupation with stability, while secondary products beyond state control are sold at higher prices and yield more profits. In agriculture, prices are usually the lowest for products subject to monopoly purchase by the state, higher for those to be purchased by the state by assigned quotas, and the highest for those open to free marketing. In industry, most of the mining enterprises yield low profits and not a few of them are unwilling to expand production because they are operat-

ing at a loss, while the processing enterprises make higher profits and grow so fast that they frequently overfulfil state targets. Such developments do not conform to the orientation for the development of production set by the state. Instead of utilizing the law of value, however, we used to issue administrative orders to check such developments. Commandism prevailed in agriculture—the areas to be sown with various crops were designated by arbitrary directives, cash crop growers were instructed to achieve self-sufficiency in food grain, and the collectives were not allowed to diversify their economy. For years, therefore, the output of cash crops dwindled, the peasants earned less and less, and grain output showed little increase. In industry, people were asked to make bricks without straw because the supply of raw and processed materials, fuels and power lagged far behind production needs, while some manufactured goods were overstocked. All this shows that once the law of value is violated, no state plan can function as a regulator.

The variance of prices from values prevents enterprises from improving their business accounting. Mao Zedong once said that the law of value is a great school in which tens of thousands of our cadres may learn how to handle the socialist economy. In the business accounting under socialism it is not yet possible to work out directly the socially necessary labour time to be expended on each kind of social product. Such time has to be measured through the medium of costs, profits and prices, all of which fall under the category of value. Therefore, our business accounting can only achieve proper results through a maximum correspondence between price and value. In particular, after the enterprises are allowed to retain part of their profits, they will pay greater attention to the prices of their products in order to protect the fruits of their labour and prevent their profits from being transferred to others through unequal exchange. If the prices are quite different from the values of products and the figures for costs and profits are distorted, the enterprises will have much difficulty conducting business accounting and improving management, with some making gains at the expense of others.

Unreasonable pricing will also make it difficult for us to run the economy by economic means. Many comrades are studying ways



to use the profit norm or a profit retention system to get enterprises interested in improving their management. But since the prices of many products are obviously at variance with their values, the profitability of an enterprise is often determined not by its management but by pricing. As stated earlier, low prices are set for many products which are urgently needed by the state and high prices for those which are not. In these circumstances, the use of profit as the lever for a reform in the system of economic management will result in a decrease in the quantity of the former and an increase in that of the latter. This will further unbalance the economy. Thus it will be difficult to reform the system of economic management without a readjustment of prices.

But it is no easy job to readjust the prices which were thrown into a state of utter confusion during the decade of the "Cultural Revolution". Readjustments will change the proportions by which the national income is distributed between the state, the collectives, the workers and the peasants. If one gets more, the others get less. The state needs more accumulation and so do the collectives, while both workers and peasants expect improvements in their living standards. Price readjustment does not alter the overall national wealth, but only changes the proportions by which it is distributed among these four sectors. If production doesn't grow, it is difficult for prices to be readjusted in a way that satisfies each sector. Hasty steps to raise the price of farm produce will affect state revenue as well as the workers' living standard, and a corresponding rise in workers' wages will further diminish state revenue and throw the national budget off balance. This will compel the government to issue more banknotes, which will affect price stability. The conclusion is that price readjustments can only be carried out step by step in the course of industrial and agricultural growth and should be conducted in a way that promotes the latter.

### 3. PRICES AND CHINA'S PRICE POLICY

Since China launched its First Five-Year Plan in 1953, the prices of all major commodities in the country have been set by the state

in a planned way instead of taking shape spontaneously through market competition. This gives people the wrong impression that the state sets prices arbitrarily without observing objective laws. Of course this is not the case. Prices in a socialist economy remain the monetary expressions of values of commodities. When the state sets the price for a commodity, it must first give consideration to the amount of socially necessary labour expended on its production so that its price roughly represents its value. For various reasons the prices of certain commodities are slightly higher or lower than their values at one time or another. On the whole, however, our price policy follows the fundamental principle that price must roughly correspond to value.

Many comrades think that since the socialist state plans and controls the prices of all commodities and can generally free them from the influence of supply and demand on the market, it can easily bring prices into conformity with values. Things are not so simple. In capitalist countries, prices are regulated spontaneously through the law of value when they deviate from values (production prices). In a socialist country, however, the spontaneous regulatory function of the law of value is restricted, and readjustments must be done by the state. Due to the constant changes in the amounts of the socially necessary labour expended on various kinds of products and due to the numerous varieties of social products, price readjustment by the state usually lags behind the changing objective conditions. This makes it possible for prices to vary seriously from value if we do not consciously grasp the law of value and regularly readjust the prices.

Before the basic completion of China's socialist transformation of the private ownership of the means of production, there existed in the country capitalist industry and commerce and an ocean of individual economy. The law of value played a definite regulatory role and prices changed essentially with changes in values and market conditions. Afterwards however, prices of all important commodities were, in the main, set by the state. Since at the time we had no specialized departments in charge of price readjustment, the variance of prices from values became more and more serious. Early in the 1960s, in the wake of the inflation and price fluctuation caused by the "Great Leap Forward", the state set up

the Price Commission to take care of price stabilization and readjustment. In addition, a five-year plan for price readjustment was formulated. With the advent of the "Cultural Revolution", however, this plan was disrupted and, for fear of price chaos, prices were frozen for a dozen years. The result was more serious variance of prices from values. Since the Third Plenary Session of the Party's Eleventh Central Committee, the prices of industrial and agricultural products as well as some other commodities have been readjusted. But we have had to give first priority to price stabilization because of the price fluctuation caused by the over-issue of currency to make up the huge financial deficits that appeared in 1979 and 1980. Overall reform of price structure and the economic management system has yet to wait.

Since the 1950s, prices in China have been basically stable, except for two instances of big fluctuation, one in the early 1960s and the other in a couple of years following 1979. Despite these two instances, retail prices in the period from 1950 to 1981 increased only 50 per cent, showing an average annual rise of 1.1 per cent or more, less than almost anywhere else in the world. At present, the major shortcoming in our price control work is that price varies from value. During the two fluctuation periods, price stabilization was given first priority for the sake of a secure livelihood for the people. Readjustment came only after stabilization. Thus, many comrades have mistakenly regarded stabilization as the sole principle applying to prices and have never considered how to readjust the unreasonable prices. If stabilization were put above everything else, the price freeze during the decade-long "Cultural Revolution" would have to be rated the most desirable thing. But the reverse is true. The costs of various kinds of products changed constantly during those ten years, and the variance of prices from values reached an unprecedentedly serious extent. This adds much difficulty to the present readjustment and reform. Since 1982, market prices have shown a tendency towards gradual stability. With the completion of our task of price stabilization, we should give more weight to price readjustment. There is a dialectical relationship between price readjustment and price stabilization. Only with regular partial readjustment can there be stabilization. Lack of such readjustment will increasingly aggravate contra-

dictions and sooner or later there has to be a major readjustment, making stabilization out of the question.

Although price fluctuations do not raise or lower the national income, they change its distribution among different social groups. There are often contradictory demands for higher or lower prices between state industrial enterprises and collectivized agricultural units, between the state and the working people, between producers and users, between producer areas and consumer areas, and between industrial departments and commercial departments. In setting or readjusting prices, the price control authorities should follow a policy of overall consideration and proper arrangement and correctly handle the contradictions between different departments and between different social groups. They should make our price policy conducive to the growth of production and the availability of market supplies; to a reasonable distribution of the national income among the state, the collectives, the workers and the peasants; and to the correct conducting of business accounting by the various enterprises, which will encourage them to improve their operation and management and increase economic effectiveness. Price chaos occurred during the "Cultural Revolution". Agriculture is the foundation of the national economy, yet agricultural growth lagged behind industrial progress. Our effort to speed up agricultural production was retarded because the obviously low prices of many agricultural products allowed only simple reproduction, which would even become difficult in times of natural calamities. After the Third Plenary Session of the Party's Eleventh Central Committee, the Party Central Committee and the State Council decided on gradual increases in the purchase prices of farm products, particularly grain, so that the high-yielding areas can get greater income from increased production and the low-yielding areas can accumulate some essential funds and adopt some measures for production growth. The purchase prices of cotton, oil-bearing crops, sugar-yielding crops and meat, fish, poultry and eggs have been raised correspondingly, so that the peasants are willing to produce and sell more. All this has markedly augmented the income of the peasants, accelerated agricultural growth and improved the supply of farm produce to urban residents. It is, of course, impractical to eliminate the "scis-

sors" differences between the price of industrial products and that of farm produce through a single readjustment. The problem will have to be solved step by step through years of effort.

While it is fully necessary to raise the prices of farm products, we have to correctly handle any possible contradiction that may arise between the workers and the peasants as a result of such a step. Higher prices of farm products will bring in their wake higher prices of foodstuffs and possibly of some light industrial products using agricultural raw materials. This will affect the livelihood of the workers and staff, particularly those in the lower wage brackets. In the first dozen years and more after the founding of New China, this problem occurred several times when grain price was raised. To solve it, the state refrained from raising the selling price of grain. Thus the purchase price of grain has exceeded the selling price, and the state has had to cover the difference by financial subsidies, which amounted to several billion yuan a year at first and has now increased to nearly ten billion yuan. A similar situation has arisen with regard to non-staple foodstuffs, such as vegetable oils, and to some industrial raw materials such as cotton. Along with the rising production of the related farm produce, state subsidies have been increasing, which means escalating financial difficulties. The answer is to appropriately raise the selling prices of the said agricultural products when the economic readjustment is completed, so as to gradually reduce state price subsidies. And at the same time, the wages of workers and staff should be raised correspondingly in order that their livelihood is not affected. However, the wage raise is confined only to workers and staff, although price rise affects many more, particularly those in the cities. Families that have many dependents but few wage-earners are more susceptible than others to the adverse effects of increased selling prices. To avoid this, the amount of the wage increase should be slightly greater than that of the price rise, which measure will, however, reduce the state financial revenue to a certain extent. So reform along this line must wait until the achievement of a complete balance between state revenue and expenditure —preferably with a little surplus.

In the past four years, the margin of the price raise for agri-

cultural produce has grown to exceed the carrying ability of state finance. It needs to be stabilized for several years. However the price "scissors" between industrial and agricultural products have not been abolished completely, and agriculture in many areas has to be subsidized with part of the profits made by commune enterprises. To promote a greater development of agriculture, the purchase prices of agricultural products will be further increased when state finance permits.

Some of the light industrial goods made from agricultural raw materials yield fairly large profits. After the prices of their raw materials are raised, the state may lower the tax rates so that the producers may make roughly the same amount of profit without raising the selling prices of the products. As for products which do not yield much profit, their selling prices may be raised slightly after the price rise for their raw materials. Meanwhile, the selling prices of many light industrial goods made from industrial raw materials, especially those made from chemicals, can be lowered as their raw materials become cheaper. In the course of readjusting the prices of light industrial goods, therefore, we may keep the general price level as it is by balancing increases with decreases.

The prices of goods from heavy industry are also far from reasonable. Generally speaking, the prices of raw materials, especially mineral products, are too low while those of processed goods are too high – a situation contradicting the state orientation of industrial development. It is necessary to raise the prices of coal and other minerals and lower the prices of processed goods. Most of the heavy industrial plants in China were built after liberation. In a given period after commissioning, their products were highly priced because of the high costs of production. In the First Five-Year Plan period (1953-57) the costs came down considerably but the prices dropped little, resulting in a high profit rate. In the next two decades, due to shortcomings and errors in our work, costs dropped little and prices remained high. Through the forthcoming readjustments, the costs of many heavy industrial goods can be slashed and their prices lowered accordingly. Price readjustment for heavy industrial products (lower prices for processed industrial products and higher prices for fuels) will cause

changes in profit distribution between trades and cause corresponding changes in financial revenue. That is why it is likely to be opposed by certain departments, the financial departments included. At present, the prices of some products (such as minerals, especially coal) are low while those of other products (such as processed goods) are high. This means variance of prices from values, different margins of profit and profit transference among different trades through the exchange of unequal values. The consequence is serious because business accounting is distorted and the various trades are induced to develop disproportionately. To remedy the disproportions and raise the economic results, the state must gradually carry out determined reform of the irrational price structure. As for financial revenue, increase and decrease can roughly balance for the fact that trades with lower-priced products have decreased while those with higher-priced goods have increased. At present, trades yielding higher profits turn over more profits to the state than those yielding lower profits, and enterprises sustaining losses are subsidized by the state. With the forthcoming price readjustment, profits earned by the various trades will be roughly equal and the aforesaid practice of profit delivery and loss subsidy will be changed correspondingly. This will make the reform more acceptable to enterprises in all areas.

The general criterion for price readjustments in a socialist country should be the approximation of prices to values. But to regulate supply and demand, the state may set slightly higher prices for certain goods to encourage their production and slightly lower ones for others to restrict their production. To limit the consumption of products like cigarettes and liquor, the state sets their prices much higher than their values and, by means of heavy taxation, allows the producers only a general rate of profit. What merits a special study here is the proper way to handle the "differential income" arising from differences in natural conditions, something equivalent to the differential rent defined by Marx. As stated earlier, the farm prices in China are still too low. In areas where natural conditions are poor, the state-set purchasing prices for their products either cannot cover production costs or cannot provide a profit. This is clearly an obstacle to agricultural growth. In areas where natural conditions are better, it should have been

possible to earn a "differential income" and build some accumulation. But these are usually densely populated areas with a limited amount of arable land. To purchase more grain from there, the state asked for a maximum multiple cropping index, e.g., three crops were to be planted instead of two in a year, or two crops in a year instead of three every two years. This has resulted in higher production costs. Given the low farm prices, increased yields brought no additional income. In view of this, the state has raised the prices for purchases beyond the regular quotas. This measure is necessary for now because it encourages the communes, brigades and teams in high-yielding areas to produce and sell more so that the national grain purchase plan will be fulfilled with better results. But while it brings more money to the well-off collectives, it does not help the low-yielding ones and widens the differences between the two. In the course of agricultural growth, it will be necessary to lower the prices of the agricultural means of production step by step, raise the prices of the grain purchased by the state within the regular quotas, and gradually cancel the higher prices paid for purchases beyond these quotas, so that the collectives working under poor natural conditions may also increase their income while the high-yielding ones enjoying good natural conditions may be assured of a higher income from a higher output.

As discussed earlier, because of the different natural conditions and different rates of labour productivity, it is impossible to narrow the differences between the well-off and poor areas through readjustments of industrial and farm prices. By raising the purchasing prices for agricultural products and lowering the selling prices of the agricultural means of production, we can narrow the differences in pay between workers and peasants, but not the differences in pay between well-off and poor areas in the countryside. When the purchasing prices for agricultural products are raised, the high-yielding collectives will get more benefits because they have more to sell. Likewise, when the selling prices of the agricultural means of production are lowered, these same collectives will gain more because they have more funds. The question of narrowing the differences between the well-off and the poor through price readjustments is a subject worthy of earnest study.



By a proper handling of matters like agricultural investment, taxation and loans, the state may be able to help the collectives in poor areas to increase their income, accumulate funds and change their backward state by developing agricultural production, going in for diversified undertakings and starting industries on the basis of local resources.

The question of a "differential income" also exists in the mining industry. For example, coal seams with a thin over-burden are suitable for open-cut mining while those with a thick one require deep mining. Some of the seams are thick and contain good coal with a low ash content; others are thin and contain poor coal with a high ash content. The coal prices are low and most of the mines are being run at a loss. After the coal prices are raised, some high-quality mines may receive much profit, while it will still be difficult for the low-quality ones to avoid losses. Since coal is the food of industry, we cannot raise its prices sharply all of a sudden. Then how can each of the coal mines recoup its outlay and earn a reasonable profit in normal production conditions? There are two possibilities. One is through a tax policy, namely, to impose a progressive tax on producers of good coal and subsidize producers of poor coal. The other is through a price policy, namely, to set different purchasing prices for different mining areas on the basis of their resources. The coal from all mines will be purchased by coal companies and sold at standard prices for the different grades, which are set according to the average prices for the coal from different mines. The first method may be more practicable if coal supply contracts are to be concluded directly between mines and users.

In China the use of coal is encouraged while that of petroleum is restricted. As for the prices of petroleum, we may set them by adding profits to the production costs of low-yielding wells so that high-yielding wells may bring extra profits, which should nevertheless be turned over to the state in taxes as a differential income. After the enterprises begin to retain part of their profits, it will be necessary to make a strict distinction between taxes and profits so that people at low-yielding wells will not quarrel with those at high-yielding wells over the differences in profits.

Apart from handling the "differential income", our price policy

should also take care of the price gaps between different localities, which were very wide in old China. In out-of-the-way hilly areas, especially those inhabited by minority nationalities, the prices of agricultural and animal products were extremely low and those of industrial goods unbelievably high. Since the founding of New China, the state has been narrowing the price gaps between different localities to raise the living standards of peasants and herdsmen. As transportation improved, state commercial agencies and the supply and marketing cooperatives gradually raised the purchasing prices for agricultural and animal products and sharply reduced the selling prices of industrial goods in these areas. Since 1964, the state has narrowed the price gaps between town and country and between different localities and lowered prices in the remote hinterland, all by using the gains from the better-off or coastal areas. Although this method worked at that time, it is becoming less effective in speeding the flow of manufactured products to the countryside and to aid the regulation between surplus and scarce commodities among various regions, because enterprises have now assumed sole responsibility for their own profits or losses. It is necessary to enlarge properly the regional price differences, the price differences between urban and rural areas and those between the wholesale and retail sectors in order to encourage the regional exchange of various kinds of products, especially manufactured articles of daily use.

#### **4. REFORMING CHINA'S PRICE CONTROL SYSTEM**

Prices in China show much confusion and serious variances from values. As mentioned above, major products urgently needed by the state are priced too low while secondary or overproduced goods are priced too high. The confusion in price policy runs counter to the need for a planned development of the national economy. Without studying the function of the law of value seriously, we have not been good at utilizing the law in practical work but have tried to solve our problems by administrative methods alone. Things like the compulsory designation of areas to be sown to different crops and the arbitrary "rationing" of consumer goods have hampered a rise in production and in the peo-

ple's well-being.

Two things account for the present price confusion. In the first place, faulty economic work has contributed to imbalances in the economy, including a serious imbalance between supply and demand in the case of many products. Secondly, our price control system needs serious examination. We should make more use of the law of value and other objective economic laws and adopt fewer administrative measures in managing the economy. The state set standard prices for all major products and worked out a unitary method of pricing many of the secondary products. As a result, the prices varied far from their values for many years and could not be readjusted in time. This situation could have been avoided or remedied speedily if we had made good use of the law of value and eased price controls.

Grain supply has long been short of demand. For a number of years, while grain prices were not raised, collectives in cash crop areas and even mountainous and pastoral areas were forced to produce grain for their own use. The result was a drop in the output of cash crops, forest products and animal products. The dwindling income of the peasants and herdsmen prevented them from taking any measure to boost grain production. Grain production grew at a slower rate across the country and so did the production of pork and eggs. The collective agricultural units are quite responsive to prices because they are responsible for their own profits or losses, and low prices inevitably dampen their production enthusiasm. After the Third Plenary Session of the Party's Eleventh Central Committee, the state has raised the purchase prices of agricultural products and conditions in rural areas have changed remarkably. However, some units and areas have indiscriminately used the method of rewarding above-quota delivery and sales by offering higher prices for them. Some areas and various kinds of agricultural products have thus earned different incomes because of the different purchasing quotas and price rewards. That is why production of various kinds of agricultural products cannot develop according to state requirements, some being over-produced owing to excess reward in the form of better prices. Necessary readjustment should be made.

The rationing of some of the daily necessities is necessary when

they are in short supply. But there are some alternatives. For example, when the prices of meat and eggs were raised slightly in 1979, their supply grew sharply. The rise in prices may be coupled with corresponding wage increases so that they will not affect the livelihood of people in the lower income brackets. The rationing of some daily necessities only leads to unnecessary hoarding and a man-made shortage. In a normal economic situation where the purchasing power of society roughly corresponds to commodity supply, we should utilize the law of value more often and ensure a balance between supply and demand through price readjustments, while measures like requisition purchases, purchases by assigned quotas and rationing should be avoided wherever possible.

It is actually very difficult, and sometimes disadvantageous, to enforce a unified price control by sheer administrative means. It is therefore necessary to grant a certain measure of decision-making power in price control to local governments, the price control authorities at different levels, and individual enterprises. While the state has to set the standard prices of a few vital products, maximum and minimum prices may be assigned for some of the secondary products, or the prices may be allowed to fluctuate within a prescribed range by local governments and price control authorities according to actual conditions. Some products may be purchased and sold at negotiated prices. Some products may be sold at prices higher than the planned state prices. For example, while consumers get their rations of cooking oil and meat at relatively low state prices, they should be free to get more at higher prices from state shops. For some products, such as the many varieties of small commodities and ordinary agricultural and side-line products, no prices should be set by the state; their prices may fluctuate in response to the changing market conditions.

Many comrades have misgivings about a relaxation of state control over prices and a more frequent use of the law of value to regulate the quantities of products to be made or sold, mainly because they are afraid that prices will go up and can never be stable. It is undeniable that less control may lead to a temporary rise in the prices of some commodities. Overall, however, price stability is achieved by keeping a balance between the amount of money in circulation and the actual need on the market. Such a

balance depends first on a balance between the government's revenue and expenditure, between its credits and payments, and then on a balance between the social purchasing power and the supply of commodities. These balances are closely related to each other. As long as a socialist country maintains these balances through state planning, it can make full use of the law of value without affecting the stability of the market and of prices. Since the rise of prices is, in fact, due to inflation and monetary devaluation, they can be stabilized by a proper control of the amount of money in circulation.

With its planned economy, of course, China can maintain stability of prices of the basic means of livelihood through planned pricing and use the law of value to regulate supply and demand even if the amount of money in circulation exceeds the amount of commodities available.

Between 1960 and 1962, because of the slumps in China's industrial and agricultural production, both state revenue and the supply of commodities dropped sharply and the amount of money in circulation far exceeded market need. The soaring prices at the trade fairs forced up the state-controlled prices of some products. To stabilize the prices of major consumer items, we had to ration more of them. In addition, we sold some consumer goods at higher prices, which were actually neither too high for people to afford nor too low to guarantee a steady supply. While the state continued to purchase farm products on a requisition basis or by assigned quotas at its official prices, it also acquired these products at prices negotiated with the peasants, which were higher than the official prices but lower than the trade fair prices, and sold them on the urban and rural markets by adding a commission. These measures not only ensured a secure life for workers and staff in the lower income brackets but also met the needs of those in the higher income brackets. They provided successful examples of making flexible use of the law of value.

From 1962 to 1965, we withdrew several billion yuan from circulation through measures such as selling certain commodities at higher prices to re-establish a balance between the money in circulation and the market need for it. With an all-round improvement in the economy, the supply of commodities increased, and

trade fair prices soon dropped to the level before 1958. The higher prices referred to above also gradually came down to the level of official prices. Many of the rations were abolished and replaced by free sales, while the rations that remained, such as grain and cloth, became basically sufficient for consumer needs. Higher-priced goods found few customers and had to be sold at original prices, and the system of purchases and sales at negotiated prices finally came to an end. This experience shows that even in hard times it is possible to utilize the law of value to overcome economic difficulties. If, instead of using the law, we had relied solely on such administrative means as state purchases on a requisition basis or by assigned quotas and the rationing of consumer goods, the people would have had to endure more hardships and the economy could not have taken a quick turn for the better.

The present supply of commodities is much better than that in the early 1960s. In most areas, farm and side-line products are being sold at trade fairs at prices close to the official ones. With a considerable growth of agricultural production, we may from now on gradually cut state purchases on a requisition basis or by assigned quotas and change them to purchases and sales at negotiated prices. Except for major items like grain, cotton and oil-bearing crops, it does not seem necessary to set official prices for farm products. The supply and marketing co-operatives may buy more where the prices are lower and less or none where they are higher to balance surpluses with deficiencies in different areas. Rural people's communes and production brigades and teams may also sell their surplus produce after fulfilling the targets for sales to the state, plus their fruits and melons, vegetables, meat, fish, poultry and eggs, by setting up their own stores in nearby cities and towns and offering them to customers at their own prices. Of course, this does not mean the state will give up all control. It should take various economic measures to promote the production of certain commodities and regulate prices by balancing surpluses with deficiencies in different areas. As for grain, its prices are supported by government subsidies even in many capitalist countries. The same thing has been true for China and may have to remain so for quite some time.

The prices of heavy industrial products in China are far from

reasonable. Engineering goods have been overstocked for a long time. But because of their high prices and profitability, the output quotas were overfulfilled. In 1981, the investment for capital construction was cut down and overproduction appeared in the engineering industry. The great variety of engineering goods makes it difficult for the state to set standard prices for all of them. With the exception of the small number of major projects, the supply departments should be allowed to purchase the overstocked goods in limited quantities at lower prices and sell them freely, and to purchase and dispose of the sub-standard ones at lower prices, or even to reject them. If goods urgently needed by the state are being sold at too low a price, customers should be able to purchase them at higher prices without having to go through bureaucratic formalities for level-by-level approval. Prices for goods produced in small batches may be agreed upon between sellers and buyers through negotiation. Except for a few products under state monopoly, prices should also be negotiated for products from small-scale local industries and commune-run industries.

In summary, while handling prices, we should learn to utilize the law of value and give wider scope to its role as a regulator. This will help us eliminate, in a relatively short time, the glaring abnormality of prices varying radically from values and of a price policy at odds with state plans. To recapitulate some of the points made in this chapter, since there is a great multitude of farm and side-line products and manufactured articles, it is unnecessary to set uniform prices for the numerous secondary products. Except for a few major products, the communes and their subdivisions should have the right to set the price of goods they sell to urban residents. The prices of certain manufactured articles should be set by the factories themselves. Consumers should be given a free choice so that the cheaper and better goods will sell well while the more expensive and poorer ones will be difficult to market. This will encourage the advanced, spur on those lagging behind and benefit consumers. Harvests vary from area to area and from season to season, and so should the prices of farm and side-line products. The commercial departments may buy more from bumper harvest areas and less or none from areas with crop failures. The flow of certain products from the former to the latter areas would be a good

thing. It is selfish departmentalism to place uniform price tags on products and enforce a blockade against other areas for fear of an outflow of products – a practice which does no good to the producers or consumers. A free circulation of products will satisfy the needs of the recipients and encourage the senders to expand production and increase their income. Rigid control over prices without any competition hinders the exchange of goods. It should be changed because it does not help consolidate socialism but hinders socialist economic development.

Recently some comrades have asked whether it is wise to maintain price stability and avoid inflation. They point to the fact that controlled inflation is being tolerated in capitalist countries and an annual price increase of a few per cent pushes production forward. In my opinion, the situation in our country is different from that in capitalist countries. In their case, overproduction calls for a certain measure of inflation to stimulate the economy in order to avert or alleviate an economic crisis caused by overproduction. In China most of the commodities are in short supply and the imbalance between supply and demand will become more serious if there is inflation. Moreover, rises in price call for an increase in wages, and if both prices and wages were always on the increase, people would become compulsive about prices and wages, affecting the unity and stability of relations among the workers and between the workers and peasants. Of course, stabilizing prices does not mean that the prices of all kinds of commodities will have to remain unchanged. The present prices of many items are quite unreasonable and should be readjusted. But readjustments should be effected through both increases and decreases so that the general price index will be stabilized as much as possible. To this end, the state must maintain a balance between revenue and expenditure and between credit receipts and payments as well as a balance between the money in circulation and the market need for it so as to avoid inflation. This has been our policy for years and it should be upheld in any reform of the price control system.



## Chapter VII

### PLANNING THE SOCIALIST ECONOMY

#### 1. HOW TO PLAN THE ECONOMY

A socialist country can and must plan its economy because the means of production are under public ownership and the economic sector under ownership by the whole people leads the rest of the economy.

To satisfy the rising material and cultural requirements of its population, a socialist country must ensure a speedy and proportionate growth of production and a rational distribution of products for both consumption and reproduction. To this end, it sets up special agencies to keep track of the GNP and the national income; work out a proper ratio between the consumption fund and the accumulation fund; distribute the accumulation fund, mainly the capital investment fund, among departments engaged in material production, intellectual production and other pursuits; and distribute the consumption fund among different sections of the population comprising mainly workers and peasants. In other words, it has to provide material guarantees for national construction and the people's livelihood and see to a general balance between supply and demand.

The socialist state should scientifically work out a single plan for economic and social development, without which it cannot organize the nation for a struggle to achieve common objectives. However, this does not mean an all-inclusive plan setting arbitrary targets for the grassroots, which has proved impracticable.

It is impracticable because, first of all, there are hundreds of thousands of products and even a greater number of varieties and specifications of these products which cannot be covered by a single plan. In China, only a few hundred products, accounting for a

little over half of the GNP value, are handled directly by the State Planning Commission. While the commission can work out accurate figures for a few dozen products, it can only make rough estimates for the rest. Even in the case of the former, the figures cannot possibly cover all varieties and specifications, which can only be determined by business agencies or between supplier and user. Since production and demand change from time to time, especially where varieties and specifications are concerned, meticulous planning by higher authorities creates difficulties in balancing supply with demand.

Secondly, productive forces in China, especially in agriculture, remain at a low level and over 80 per cent of the population belong to collective economic units, including collective-owned industrial and commercial enterprises. Being responsible for their own profits and losses in commodity production, the collectives must consider how to earn more. Instead of setting arbitrary production quotas for them, the state should let them decide what and how much to produce — and how to produce — beyond quotas of state monopoly purchases and requisition purchases. Government authorities used to assign crop acreages and even cultivation methods to the collectives, making it difficult for them to grow crops best suited to their conditions. Production declined and the peasants' income dropped, dampening their enthusiasm. This is a form of punishment for violation of the objective laws. Apart from quotas of its monopoly and requisition purchases, the state should work out only guidance plans for farm production, and these plans should be ensured through state price policies. Production of a great variety of small ordinary farm and side-line products may be handled through market regulation instead of being covered by the state plans. Experience shows that the collective economic units can act in line with the state plans and strive to fulfil the nation's agricultural targets if these plans are based on actual conditions and consultation with the collectives.

China's economic planning system was copied from the Soviet Union's in the early 1950s. Before the changeover to socialist ownership of the means of production, the socialist state economy was supplemented by a vast number of capitalist and state-capitalist (state-private) enterprises and small businesses which provided a

great variety of products for consumers and many channels for commodity circulation. This lent much flexibility to the economy and made it relatively easy to meet market needs. After the basic completion of socialist transformation in 1956-57, especially after the merger and reorganization of former private businesses in 1958, there was a sudden decrease in the number of production units and commodity circulation channels. State commercial agencies bought and sold the products of state industrial enterprises much in the same way as they handled the goods which capitalist enterprises turned out on government orders before socialist transformation. The result was a sharpening of the contradiction between production and consumer demand. As for capital goods, they were handled even more rigidly because people generally subscribed to the theory that, as means of production, they were non-commodities and should not be circulated through the market. Many of the goods did not meet actual needs or were made according to incorrect specifications. Some were overstocked, others in short supply. People gradually realized that, without a change in this situation, socialist economic planning could hardly be effective.

It goes without saying that state enterprises, which are owned by the whole people, are directly guided by state planning. But they too must be allowed some leeway in carrying out state plans. For key products which have a close bearing on the national economy and the people's livelihood, the state should set mandatory targets, which are to be regulated by economic levers, and there should be consultations with the enterprises, which should then be left to organize production and carry out technical innovations according to market needs. To this end, centralized control over the income and expenditure of enterprises should be eased to give them more financial power and responsibility. To ensure steady supplies and market stability, the state will have to continue its monopoly purchase and marketing of products vital to the economy and the people's livelihood, such as petroleum, coal, grain and cotton cloth. On the other hand, it should gradually relinquish its monopoly over the many articles of daily use and open them to free purchase and marketing by commercial agencies. By our usual practice, the commercial agencies had to purchase whatever was

produced and sell whatever was purchased. The process is being reversed to base purchase on market demand and production on purchase.

Measures are being taken in China to expand the rights of enterprises to make their own decisions. What, then, if an enterprise does not produce according to state plan, unbalancing supply and demand? There can be a number of remedies: (1) Pricing—lower prices for products whose production is to be restricted, and higher prices for products whose production is to be encouraged. (2) Taxation—more taxes on products whose production is to be restricted, and fewer or none on products whose production is to be encouraged. (3) The provision of supplies—ample supply of raw and processed materials, fuels and electricity for enterprises encouraged to expand production, and less or none for those which should slash or stop production. (4) Investment—more capital investment in industries and enterprises to be expanded, and less or none in those to be restricted. (5) Credit — more loans at lower interest rates for industries and enterprises to be expanded, and less or none for those to be restricted. Wherever possible, the government should use economic levers to regulate the economic operations of enterprises and refrain from resorting to administrative means to interfere in such operations. By so doing the authorities may avoid wishful thinking and overcome bureaucracy while the enterprises will not do things just as they are told but display initiative in operation, seriously examine market demands, improve their management, and try to achieve better economic results by using less human and material resources.

The collectives should be granted the right to manage their own affairs. On this basis, the state will be able to ensure the fulfilment of various production quotas chiefly by utilizing the law of value through price adjustments. At the time of the founding of New China, grain and other farm produce were in sufficient supply and there was no need to ration them. After the First Five-Year Plan got underway in 1953, population growth in industrial cities and towns compelled the state to purchase grain and non-staple foods on a requisition basis or by assigned quotas. This was necessary at the time because it solved the problem of feeding the population in cities, cash crop areas and grain-deficient areas. But too much

was purchased in some years and the peasants were disgruntled. For a time, the grain question was on everybody's lips in the countryside and the state's monopoly purchase and marketing of grain became a topic of discussion in almost every rural household. It will be impossible to abolish such purchases in the near future. But their negative effects are already clear. Excessive state monopoly and requisition purchases at low prices will dampen peasants' enthusiasm, hinder the growth of farm production and, consequently, make the supplies to the cities increasingly difficult. We should learn to regulate farm production by using the law of value, and we should constantly readjust irrational prices. As soon as farm products are priced rationally, the peasants will produce more, and the urban and rural people will get more to eat and wear.

State purchase of some daily necessities on a requisition basis or by assigned quotas and their rationing have been going on in China for twenty years and more. This gives people the wrong impression that these measures are essential for planned economic operations in a socialist country and for a balance between supply and demand. In some socialist countries, however, no such measures have ever been adopted, or they have been used for a time and then abolished as soon as supplies became sufficient. Since the Third Plenary Session of the Eleventh Central Committee of the Party, China has, in addition to granting more managerial freedom to the peasants, paid more attention to narrowing the "scissors" differences between industrial and farm prices and have achieved a faster agricultural growth in recent years, making possible an unrationed supply of farm and side-line products. The above measures did play a positive role in balancing supply and demand in China. But because of our failure to make good use of the law of value, the differences between industrial and farm prices widened for a period of time. Many communes and their subdivisions increased their production without bringing in a bigger income, much to the disappointment of the peasants. The contradictions between supply and demand sharpened, resulting in a vicious cycle whereby more and more goods were subjected to compulsory purchases and rationing. While these measures cannot be abolished now as far as a few major farm products are concerned, we must realize

that they are not the ways we should conduct our economic operations. The correct way is to promote an all-round development of farm production by a conscious application of economic laws, particularly the law of value, and, on such a basis, balance supply and demand by increasing market supplies. With an enormous population and limited arable land, China faces certain difficulties in acquiring an ample supply of farm produce, but there is still much room for developing its farm production. Through a full utilization of present productive capacities, farm output can be further raised in high-yielding areas and doubled or even tripled in low-yielding areas.

In short, economic life in a socialist country calls for a unified state plan to regulate the ratios between the different sectors of the economy and set the orientation of economic development so that there will be no anarchy in production. If we emphasize only the need to recognize the decision-making power of collective economic units and grant a greater measure of such power to state enterprises without directing their economic operations into the orbit of state planning, the economy will suffer from confusion. On the other hand, we should recognize the importance of the market and the law of value, and must not think that planning the economy means setting the details of all economic operations in the country, requiring all state enterprises and even the collectives to act only according to instructions in the state plan, or denying their decision-making power and initiative. This line of action will stagnate the economy and make it impossible to bridge production with demand. Such a system of planning is obviously inapplicable to China in view of its vast territory and large population.

Since the initiation of the policy of "readjusting, reforming, consolidating and improving" the national economy after the Third Plenary Session of the Party's Eleventh Central Committee, three years of effort resulted in remedying the disproportions in the economy. Now most products have become sufficient enough to make rationing unnecessary. At the same time, heated debates have been conducted in economic and academic circles over the reform of the state planning system. It has been unanimously agreed that such a system requires the full use of the law of value. It has been proposed that regulation through planning, which

plays the leading role, should be combined with market regulation. But interpretation differs on what market regulation is. One theory holds that it refers to free production and exchange of small commodities, which, not covered by state planning, are to be regulated spontaneously by market through the law of value. Another theory maintains that market regulation means the state consciously using such economic levers as pricing, taxation and credit to place the production and sales of a great number of commodities under the state's guidance plan. After repeated discussion, most comrades have concluded that the law of value operates as a regulator under socialism in two different ways. (1) Regulation through planning—the state consciously exercises the law of value to fulfil its plans, which are the chief regulators. (2) Market regulation—the state leaves part of the production and circulation not covered by the state plans to be regulated spontaneously by the law of value, in which case conditions are the chief regulators. These two different ways should be distinguished from each other. It seems that the latter interpretation is more appropriate.

In his report to the Twelfth National Congress of the Party, Hu Yaobang pointed out:

China has a planned economy based on public ownership. Planned production and circulation cover the main body of our national economy. At the same time, the production and circulation of some products are allowed to be regulated through the market without being planned, that is, by letting the law of value spontaneously play a regulatory role, within the limits circumscribed by the state's unified plan and in the light of the specific conditions at different periods. This serves as a supplement to planned production and circulation, subordinate and secondary to it but essential and useful nonetheless. The state ensures proportionate and co-ordinated growth of the national economy through overall balancing by economic planning and the supplementary role of market regulation.<sup>1</sup>

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<sup>1</sup>*The Twelfth National Congress of the CPC (September 1982)*, FLP, Beijing, 1982, p. 31.

In order to make the development of the economy centralized and unified as well as flexible and diversified, planning should take different forms as dictated by different circumstances. The above-mentioned report had this to say in this regard:

Plans of a mandatory nature must be enforced in regard to the production and distribution of capital goods and consumer goods in the state sector which are vital to the national economy and the people's livelihood, and especially in key enterprises vital to the whole economy. This is a major manifestation of China's socialist ownership by the whole people in the organization and management of production. For the sector of the economy which is owned by collectives, mandatory targets should also be assigned where necessary, as in the purchase of grain and other important agricultural and side-line products by the state on fixed quotas. In addition to plans of a mandatory nature, guidance plans, whose implementation is mainly ensured by means of economic levers, should be used in regard to many products and enterprises. This is because diverse economic forms still exist in China and it is difficult to make precise estimates of the multifold and complex demands of society and of the productive capacity of a vast number of enterprises. But whether in mandatory planning or in guidance planning, we must strive to make it conform to the objective reality, constantly study changes in market supply and demand, consciously make use of the law of value and such economic levers as pricing, taxation and credits to guide the enterprises in fulfilling state plans, and give them varying degrees of powers to make decisions as they see fit. Only in this way can state plans be supplemented and improved as required and in good time in the course of their implementation. As for a number of small commodities which are low in output value, great in variety and produced and supplied only seasonally and locally, it is neither necessary nor possible for the state to control them all by planning. Enterprises may be allowed to arrange their production flexibly in accordance with the changes in market supply and demand. The state, on its part, should exercise control through policies, decrees and administration by industrial and commercial offices and should help



those enterprises with the supply of certain important raw and semi-finished materials.<sup>1</sup>

The above guidelines indicate the correct orientation for the reform of our planning system and the economic management system as a whole. Systematic reform in this direction will help bring into full play the superiority of the socialist planned economy and greatly accelerate China's socialist modernization programme.

## **2. NATIONAL CONSTRUCTION AND THE PEOPLE'S LIVELIHOOD**

All economic operations in a socialist country are designed to satisfy the rising material and cultural requirements of the people. They should be conducted in such a way that the people may fare ever better on the basis of growing production. For a faster rise in the people's living standard, it is necessary to carry out extended reproduction at a greater speed. To this end a larger accumulation fund has to be drawn from the national income. But a larger accumulation fund means a smaller consumption fund and, consequently, a slower rise in the current living standard of the people. The consumption fund meets the immediate needs of the people while the accumulation fund creates the material conditions for a better satisfaction of their future needs. While the two serve the same basic interests of the people, there is a contradiction between them as far as the distribution of the national income is concerned.

The national economic plan of a socialist country must establish a proper ratio between accumulation and consumption. While establishing the ratio, the state should first try its best to satisfy the immediate needs of the people. It must at least keep their present living standard and then improve it from year to year in the course of production growth. Failure to do this means inability to demonstrate the superiority of the socialist system and arouse the socialist enthusiasm of the working people, which will in turn slow

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<sup>1</sup>Ibid., pp. 32-33.

down the development of the socialist economy. China followed a proper ratio between accumulation and consumption for some eight years after liberation, i.e., during the period of economic rehabilitation (1949-52) and the period of the First Five-Year Plan (1953-57). The people's life improved every year and both industrial and agricultural production grew fast. Under the First Five-Year Plan the annual rate of accumulation reached 24 per cent, which was already a bit too high. In 1956, the First Session of the Eighth National Congress of the Communist Party decided to keep it around 25 per cent in the Second Five-Year Plan period (1958-62), which represented a sound approach. However, from 1958 to 1960, the rate of accumulation rose above 30 per cent and even hovered around 40 per cent. In combination with other difficulties, this caused a slump in agricultural production and threw the national economy off balance. Industrial production was forced down as well, and the people went through much hardship during 1960-62. All this proved that, in the circumstances prevailing at the time, the rate of accumulation could only be kept around 25 per cent, and going beyond this limit would bring stagnation or even retrogression in production instead of rapid advance. If we had lowered the rate of accumulation from the beginning, we would have been able to use more funds to improve the peasants' conditions and promote agricultural growth and thus accelerate the development of light industry. (At the time, light industry depended on agricultural raw materials to a larger extent than at present.) By developing agriculture and light industry, we could have raised the people's living standard and ultimately accumulated large funds for a further development of heavy industry.

To overcome the nation's economic difficulties, we began to carry out a policy of "readjustment, consolidation, filling-out and raising the standards" in 1961. The rate of accumulation was kept under 20 per cent during 1961-63. The ratios between the different sectors of the economy were readjusted, paving the way for a favourable turn. In 1964-65 the rate of accumulation rose to some 25 per cent again. An all-round turn for the better was effected in 1965 and 1966 and the people's living standard returned almost to the 1957 level. If we had earnestly carried out the IInd FYP adopted at the Eighth Party Congress, the major slumps in indust-

rial and agricultural production could have been avoided, the average annual rate of industrial growth in the eight years from 1958 to 1965 could have approached that in the Ist FYP period (18 per cent), while the rate of agricultural growth could have slightly exceeded that during the same FYP period (4.5 per cent). From 1958 to 1965, because of the twists and turns we experienced, industrial production rose by an average of only 3.8 per cent in the first five years and increased by an average of about 8 per cent in the eight-year period. Agricultural production dropped in the first five years and rose by an average of only 1.5 per cent in all the eight years. Since this small increase in farm output was offset by population growth, there could not be any improvement but instead a slight drop in the living standard of the people, whose socialist enthusiasm was also affected.

The IIIrd and IVth FYPs covered the years 1966-75. Interference by the Lin Biao and Jiang Qing counter-revolutionary cliques again caused ups and downs in industrial and agricultural production. The annual rate of accumulation reached 26 per cent in the IIIrd FYP period and exceeded 30 per cent from 1970 onward. Too many capital construction projects were undertaken with poor returns on investment, making it impossible to improve the people's livelihood. Things came to a head in 1976 when chaos reigned supreme in production, state enterprises suffered great losses, the government incurred a big financial deficit and the whole economy experienced serious setbacks. After the downfall of the Gang of Four, industrial and agricultural production was gradually rehabilitated and began to show substantial rises. However, as the rate of accumulation stayed above 30 per cent and there were still too many projects under construction imbalances in the national economy remained and became even worse in 1978. Having identified the problem well in time, the Party Central Committee proposed a new policy of readjustment in 1979, which aimed at reducing the scale of capital construction and bringing down the rate of accumulation. Through the efforts made over the past few years, the rate of accumulation was lowered to below 30 per cent, thus remarkably bettering the life of both urban and rural population.

The rate of accumulation is not a stationary one. It may rise with per capita national income. But China is the most populous coun-

try in the world and remains a poor one in terms of per capita national income. While planning the economy, we should first make the best possible arrangements for the people's livelihood and should not rashly increase the rate of accumulation in disregard of their conditions. Under present circumstances it is preferable to keep the rate of accumulation at about 25 per cent and limit it to a maximum of 30 per cent. The investment rate in developed capitalist countries is generally 20 per cent and may occasionally exceed 30 per cent in some countries (Japan, for example). Free from the extravagance and waste of the bourgeoisie, a socialist country like ours may increase the rate of accumulation to around 30 per cent if our per capita national income reaches the level of developed capitalist countries. But we are still far from this goal.

The accumulation fund is spent not only on the material means of production but also on labour power. Especially in farmland capital construction, the projects used to consume far more human labour than material means of production. The use of labour power, however, does not mean a non-consumption of material wealth, for the collective economic units must supply the labourers and their dependents with the necessary means of subsistence. However, the labour power used in farmland capital construction in China is often counted together with that used in regular farm production. Thus the communes, brigades and teams often include the accumulation fund used for this purpose, i.e., payment to the capital construction labour force, in the consumption fund. The accumulation fund drawn by each production team from its net income is generally 5 per cent, but the actual spending is much greater.

Of China's fiscal revenue in the past, less than 10 per cent was contributed by the peasants in taxes while more than 90 per cent came from industry in both taxes and profits. It looked like the workers were contributing much more to the country's accumulation fund than the peasants, but it was not so. What happened was that a large part of the value created by the peasants was transferred to industry through unequal exchange and therefore appeared as part of the contribution from the workers. In fact, the peasants' contribution made up at least one-third of the state revenue.

In mapping out the national economic plan, the state sets apart

a small portion of the accumulation fund as reserve in the form of goods and materials and rationally distributes the rest of the fund between departments engaged in material production and those involved in non-material production. The latter departments cover culture and education, health, scientific research, urban construction, etc. It is normally correct to grant the larger part of the fund to material producers for extended reproduction. In China, however, too much has been invested in material production and too little in non-material production in the past thirty years, hampering a rise in the people's welfare. More should be spent in non-material production, so as to raise the overly low amount of accumulation fund used for non-productive purposes. Within the field of material production, too much has been spent on heavy industry and too little on agriculture and light industry, which has also worked against an improvement in the people's livelihood. The investment ratios between agriculture, light industry and heavy industry should be readjusted so that less will go to heavy industry and more will be given to agriculture and light industry.

In the process of social reproduction, the national scale of capital construction must fit in with the supply of capital goods, including various kinds of equipment and building materials. If the accumulation fund increases without a corresponding increase in the supply of capital goods, many capital construction projects cannot be completed on schedule. Likewise, the purchasing power of the population must rise with the supply of consumer goods. For an improvement in the people's livelihood, a greater supply of consumer goods is even more important than a bigger consumption fund. If the fund rises faster than the supply, people will not be able to buy what they need with their money and will not fare any better in effect. Between the late 1950s and the late 1970s, there was an increasingly short supply of both capital and consumer goods in China. The basic cause was too much investment in fixed assets, leading to a short supply of capital goods. This necessitated a faster development of heavy industry, which affected agriculture and light industry and led to a worsening shortage of consumer goods. In actual fact, these strains could be eased by cutting back on the investment in fixed assets and speeding up the development of agriculture and light industry.

The national economic plan also calls for a rational distribution of the consumption fund among the different sections of the population, especially between workers and peasants. The income of the workers is mainly determined by their wages, which should be increased as the principal means of improving their livelihood. At the same time, efforts should be made to build more housing for workers, expand cultural and educational undertakings and other welfare facilities, and ensure a better supply of consumer goods. The income of the peasants is determined, on the one hand, by the amount of farm produce they deliver to the state, and on the other, by the purchasing prices for farm produce and the selling prices of industrial goods. In view of the fairly wide "scissors" differences between industrial and farm prices, raising the purchasing prices for farm produce and lowering the selling prices of industrial products will remain important ways to improve the life of the peasants.

The national economic plans in the past two decades and more have shown three main shortcomings in the arrangement for national construction and the people's livelihood:

1. The accumulation rate has been too high, preventing a yearly rise in the people's living standard and even lowering it in some years. The rate was raised to some 40 per cent between 1958 and 1960, which was a serious mistake. It remained above 30 per cent during the IVth FYP period (1971-75), which was still a bit too high. For more than a decade, people have been complaining about the over-extension of capital construction, but no one has made up his mind to cut it down. Many projects have remained half-finished for a long time, holding up the growth of production.

2. The planned targets for extended reproduction were too high when viewed against the limited supply of capital goods. The Party Central Committee pointed out many times that state plans must allow for unpredictable circumstances and needs. Some attention was paid to this principle during the Ist FYP period. Beginning with the IInd FYP, however, no allowance was made for unexpected needs, and big gaps were left in the supply of capital goods. Many production units suffered from a shortage of raw and processed materials, fuel and power, and could not fulfil their production plans. Many factories could not operate at full capacity.

Many projects were held up because of lack of equipment and building materials. Some new projects could not be commissioned on schedule because of a lack of auxiliary facilities.

3. No sufficient attention was paid to the improvement of the people's livelihood. Especially during the ten years of the "Cultural Revolution", the so-called "material stimulus" and "the theory of the all-importance of the productive forces" were subjected to criticism almost every day and efforts to improve the people's livelihood were dubbed as revisionist. Between 1957 and 1977, living standards almost remained the same. The wage average was not raised, the peasants' food grain was not increased, and about one in every three peasants led a hard life. This inevitably affected the working people's enthusiasm in production and industrial and agricultural growth.

As stated earlier, the purpose of socialist production is to satisfy the rising material and cultural requirements of the population. The level of development of productive forces in our country is very low and the living standard of the people is lower than in developed capitalist countries. This is unavoidable for the time being. However, production should grow faster in our country than that in capitalist countries and our living standard should also rise faster than theirs. We achieved this aim in the first eight years after the founding of New China but failed to do so in the next two decades. Failure to achieve this aim doesn't mean that socialism is not a superior system. It only means that we have violated the objective laws of economic development in some respects and have not given full scope to the superiority of socialism. We should make up our minds to change the ratio between the accumulation fund and the consumption fund and quickly remedy our economic imbalances. By doing so, we are sure to achieve a faster rise in industry and agriculture and a speedier improvement in the people's life than in developed capitalist countries.

### **3. RATE OF ECONOMIC DEVELOPMENT AND RATIOS BETWEEN DIFFERENT ECONOMIC DEPARTMENTS**

A socialist country must guarantee a proportionate and speedy

development of the national economy to satisfy the varying and growing needs of the people's life. But this is easier said than done. If we blindly speed up production in violation of the objective laws of economic development, the proportions between the different economic sectors will be upset and production growth will only slow down as a result. The ratios between the different departments of the national economy in a capitalist country is mainly regulated spontaneously by the objective laws of capitalist development. In the last fifty years or so, measures for more state interference in economic activities have also been adopted in capitalist countries in the service of monopoly capital. Different from a capitalist economy, our socialist economy is regulated entirely by state plans. It has only been thirty years since we started to build socialism. With our lack of experience in coping with such a complicated task, mistakes are unavoidable. To avoid detours, we must earnestly review our experience and intensify our study of the theory and practice of a planned economy.

A proportionate development of the various departments of the national economy, which ensures a balance between production and demand, is necessary for both a capitalist and a socialist country. In a capitalist country, the increase in purchasing power often lags behind the increase in commodities as a manifestation of the contradiction between the social character of production and the capitalist mode of appropriation of the means of production. A sharpening of this contradiction triggers off a periodic crisis of overproduction. Contrary to this, production in a socialist country aims at satisfying the rising material and cultural needs of the people. But there is no limit to the rise in their needs. To meet such needs, production must grow at a high speed. In determining this speed, however, we must consider not only what needs to be done but also what can be done. If we set too high a speed and expand the capital construction programme beyond objective possibilities, the ratio between accumulation and consumption will very likely be upset, forcing us to lower the rate of production growth. As the saying goes, "Haste makes waste."

The accumulation fund is generally used for extended reproduction, which must be guaranteed by a sufficient supply of capital goods from heavy industry. An over-extended capital construction



programme would mean much investment in heavy industry to the detriment of agriculture and light industry, resulting in imbalances between the three. During the Ist FYP period, the annual rate of industrial growth averaged 18 per cent, breaking down to 25.4 per cent for heavy industry and 12.9 per cent for light industry. The rate in agriculture was only 4.5 per cent. These were actually the first signs of imbalances between agriculture, light industry and heavy industry. In his 1956 speech, "On the Ten Major Relationships", Mao Zedong pointed out that if priority was to be given to heavy industry, then light industry and especially agriculture must be developed rapidly at the same time. Without agricultural development, he said, a smooth development of heavy industry would be impossible. During the Ist FYP period, since agriculture grew from year to year and the people's livelihood improved as a result, the contradictions did not rise to the surface. The proposals for the IIInd FYP presented by Zhou Enlai at the First Session of the Eighth National Congress of the Chinese Communist Party in 1956 provided for a twofold increase in industrial production in five years, as against the 2.28-fold increase during the Ist FYP period. Agricultural production would grow by 35 per cent as against 25 per cent during the Ist FYP period. The steel target for 1962 was 12 million tons, and grain output would reach 250 million tons the same year. Total capital investment for the five years was set at 100 billion yuan, and the annual rate of accumulation at about 25 per cent. All this was correct. In 1958, owing to over-zealousness, an excessively high target was set in an attempt to completely change the backward state of the national economy within three years. By 1960, steel output exceeded 18 million tons and total investment in a period of three years topped 100 billion yuan with the annual rate of accumulation reaching or even exceeding 40 per cent. In production relations, a "communist wind" was stirred up, which caused a sharp drop in agricultural production in 1959. Light industry also came down by a big margin in 1960 and the following two years saw the downswing in heavy industry. This shows that in planning the national economy, an unrealistically high speed will only bring disastrous results. The Party Central Committee put forward at the end of 1960 a policy of "readjustment, consolidation, filling out and raising the stan-

dards" with regard to the national economy, and we took steps to slash the capital construction programme and production in heavy industry. By 1962, steel output was 60 per cent less than that in 1960, remaining at a level a little higher than that in 1957; total investment was cut back by 80 per cent, accounting for only half of the 1957 figure. During the IInd FYP period (1958-62), industrial production rose by only 3.8 per cent while agriculture declined by 4.3 per cent. Total industrial and agricultural output value registered a mere average annual increase of 0.6 per cent as against the 10.9 per cent during the Ist FYP period. With readjustment, both industrial and agricultural production showed a turn for the better in 1963, and an all-round improvement in 1965. Industrial output value in 1965 nearly doubled that in 1957, and agricultural output value also topped the 1957 level. During the eight years in question, the annual increase in total industrial and agricultural output value averaged 6 per cent, lower than that during the Ist FYP.

The "Great Leap Forward" tipped the balance between heavy industry, light industry and agriculture and it was only after five years' readjustment that the relations between the three were roughly normalized. Following are the changes in the ratios between agriculture, light industry and heavy industry in terms of output value (based on 1957 prices):

	Agriculture	Light Industry	Heavy Industry
1957	43.3%	31.2%	25.5%
1960	21.8%	26.1%	52.1%
1965	37.3%	32.3%	30.4%

The table shows that in 1960 there was a serious imbalance between the three. It was only after years of readjustment that, by 1965, the proportions of the output value of agriculture and light industry in the total agricultural and industrial output value rose markedly while that of heavy industry dropped sharply, resulting in relative harmony and a much greater speed of development. All this proves that speedy development will be out of the question in the absence of proper ratios between the different departments of

the economy.

During the "Cultural Revolution" there were ups and downs in industrial production due to the interference and sabotage by the Lin Biao and Jiang Qing counter-revolutionary cliques. The first decline in industrial production occurred in 1967-68 because of domestic turmoil. Then, with guidance by Premier Zhou Enlai, it began, in 1969, to show signs of rather swift recovery and a certain degree of improvement. However, it again came to a standstill between 1974 and 1976 due to "the movement to criticize Lin Biao and Confucius" and "the movement to counter the right deviationist trend to reverse correct verdicts". In 1975, however, industrial production registered a fairly big increase, thanks to Vice-Premier Deng Xiaoping's work. All through the ten-year "Cultural Revolution", agricultural production remained at a slow pace. The per capita grain output in 1976 was roughly the same as in 1957; increase in other farm products was also insignificant. The people's life did not show any sign of improvement and urban population growth contributed to an increasing shortage of market supply. Under the political circumstances then, it was impossible to correct the "Left" errors in our economic work. There appeared another imbalance between heavy industry, light industry and agriculture during the years 1966-76. The proportions of the output value of agriculture and light industry dropped from 35.9 per cent and 31.4 per cent to 30.4 per cent and 30.7 per cent, respectively, while that of heavy industry rose from 32.7 per cent to 38.9 per cent. Investment in fixed assets doubled and the rate of accumulation remained at above 30 per cent from 1970 onward. Serious economic disproportions, plus the influence of the Gang of Four, created unprecedented disorder in managerial system and dire ideological confusion among workers. Production efficiency went down steadily and the people's living standard marked time between 1958 and 1976, which naturally dampened the production enthusiasm of both workers and peasants.

After the overthrow of the Gang of Four and the subsequent effort to set things right in the economic sphere, the enterprise management system was gradually brought back to the normal track, and the situation began to improve. However, the influence of the "Left" ideas still persisted, as could be seen in the attempt

to raise the rate of production growth in disregard of economic results. Capital construction continued to expand. The rate of accumulation in 1978 was as high as 36.5 per cent, contributing to the imbalance in the national economy. In that year, the proportion of agricultural output value dropped to 27.8 per cent as against 30.4 per cent in 1976; the proportion of light industry registered a slight increase, and that of heavy industry rose from 38.9 per cent to 40.3 per cent. Beginning from the Third Plenary Session of the Eleventh Central Committee of the Party in late 1978, "Left" errors were repudiated, and efforts have since been made to readjust the national economy and to base our economic work on actual conditions without going for unrealistic production growth. Budgetary allocations for investment in fixed assets were reduced from 45 billion yuan to 36 billion yuan in 1979 and then to 24 billion yuan in 1980. At the same time, the state also set out to increase wages and bonuses of the workers and greatly raise the purchasing prices of farm products in an effort to change the ratio between accumulation and consumption. However, the 1979 investment plan was issued too late to hold down the scale of capital construction. Although the planned investment for 1980 was cut down, extrabudgetary investment increased considerably as a result of the reform in financial and enterprise management systems. Therefore, total investment did not come down during these two years. It was only in 1981 that both budgetary and extrabudgetary investments were sharply slashed, yielding good results.

In addition to cutting back on the fixed assets, the state planned a lower growth rate for industrial production. The planned rate was reduced to 8 per cent in 1979 and again to 6 per cent in 1980. (The actual growth rate was 8.5 per cent in 1979 and 7.2 per cent in 1980.) The planned rate for 1981 and 1982 was set at 4 per cent, while the actual rate in 1981 was 4.5 per cent as a result of investment reduction and that in 1982 reached 7.7 per cent due to a slight increase in investment.

To readjust the ratios of the national economy, the state has given priority to the development of agriculture and light industry. While in the past heavy industry always grew faster than light industry, the reverse has been true over the past three years and even the growth rate of agriculture has surpassed that of heavy in-

dustry. The rapid growth of agriculture has been due to the increase in the state purchasing prices of farm products and the implementation of the contracted responsibility system that links remuneration to actual output. Following are the growth rates for agriculture, light industry and heavy industry over the three years 1979-81:

	<b>Agriculture</b>	<b>Light Industry</b>	<b>Heavy Industry</b>
1979	8.6%	9.6%	7.7%
1980	2.7%	18.4%	1.4%
1981	5.7%	14.1%	-4.7%

The decrease in heavy industry in 1981 was caused mainly by the reduction of fixed assets, which meant reduced task for the machine-building industry, many of whose factories had to cut production. In the past, this industry served mainly the newly-built enterprises, but in 1981 it was forced to aid the existing enterprises in their equipment renewal and technical transformation. In 1982, heavy industry picked up again and grew at a faster rate than light industry. But light industry still led heavy industry in terms of mean growth rate in the period 1981-82 as a whole. The proportion of agriculture in the total industrial and agricultural output value rose from 27.8 per cent in 1978 to 31.5 per cent in 1981 and that of light industry from 31.1 per cent to 35.2 per cent, while that of heavy industry dropped from 41.1 per cent to 33.3 per cent. Thus, the ratios between the three became largely normal.

With reduced investment in fixed assets and rising living standard of both workers and peasants, the accumulation rate in 1981 went down to 28.3 per cent, much lower than the 36.5 per cent in 1978. But the rate is still a bit too high, owing mainly to the fact that, over the past few years, efforts have been concentrated on reducing investment in fixed assets without trying to keep down accumulation of the circulating funds. Now such funds in all of China's enterprises have exceeded 300 billion yuan, about half of which is held by the commercial departments; in 1981 alone, there was an increase of 35 billion yuan. Funds circulated slowly and goods were overstocked. This was because of the too many links

in the circulation of commodities — about 80 per cent of the circulating fund of the commercial departments was kept idle in wholesale centres at various levels. In addition, many factories did not provide goods needed by the market. If we take effective measures to cut 10 billion yuan or more from the circulating funds each year, the accumulation rate will drop by 3 per cent, getting down near the required 25 per cent. From now on, instead of further reducing investment in fixed assets, we should strictly control extrabudgetary investment, stop duplicated construction projects and invest more in such key projects as energy and transport. Greater effort needs to be made to economize on the circulating funds.

To sum up, China's national economy has gone through a tortuous course over the past 30-plus years. In spite of the detours and losses, we can achieve a speedy and proportionate growth of the economy provided we can avoid repeating our past mistakes through a conscious review of our experience and a few years' readjustment.

#### **4. EMPLOYMENT OF THE COUNTRY'S LABOUR FORCE**

China's population now stands at more than one billion. The rational use of the country's labour force is a vital question in economic planning.

In 1950, China had a population of 550 million. The country had only just been liberated, and its industrial and farm production were both in bad shape. The unemployed numbered three or four million in the cities, roughly equal to the number of employed, and there were many more jobless people in the rural areas. During the three years of economic rehabilitation, we carried out land reform in the rural areas, where every peasant was given a piece of land on which he could securely live. As for the jobless in the cities, we allowed a small number to join state enterprises, public institutions and government departments, while the rest earned their living by forming production teams and groups which were responsible for their own profits and losses.

Some of the jobless were organized for the construction of public works, such as roads and water conservancy projects, and paid low wages. As production grew, the serious problem of unemployment was in the main solved in three years.

During the Ist FYP period, both production and the number of workers grew rapidly. While unemployment was virtually eliminated, population increased by well over 10 million a year. All we could do was increase employment by creating more jobs at low wages. Wages were not high, but people fared better as employment grew. During those five years, the state strictly controlled the number of industrial and office workers on its payroll, while industrial labour productivity rose by 50 per cent. Our work in this field was satisfactory.

Between 1958 and 1960, however, as we loosened our control over employment, the total number of workers jumped from 24.5 million to 50 million while the rural labour force dropped by 23 million. As too many people took part in farmland capital construction, too few tended the crops. The overgrowth of the urban labour force caused great difficulties in the supply of daily necessities to the cities, and labour productivity dropped sharply. Between 1961 and 1962, the government cut the industrial labour force by 20 million and sent them back to rural areas for farm work, thus easing the economic strain. In most of the subsequent years the state maintained a strict control over the employment of industrial and office workers. During the ten years of the "Cultural Revolution", labour productivity generally showed no rise but dropped in some departments because of poor management and slack discipline. The situation has changed for the better only in the past few years.

After the means of production were placed under socialist ownership in China, a wrong tendency surfaced—that of the state taking over all job placements. Before the change over, the existence of private businesses and peddlers allowed for individuals to find jobs. After their disappearance, state labour departments had to provide jobs for all young people awaiting employment. Owing to the setbacks in economic construction, such people often outnumbered the jobs available, creating an idle labour force in the cities. To solve this problem, the government mobilized millions of mid-

dle-school graduates for settlement in the countryside during the "Cultural Revolution". Because there is too little farmland and life is otherwise difficult in rural areas, great numbers of young people have asked to return to the cities after a few years' work in the countryside. Thus the employment problem in the cities has become serious in the past ten years or so. Beginning in 1970, neighbourhood enterprises have been started in many cities, but they have employed mostly housewives or people physically unsuited for ordinary full-time jobs. The problem of young people awaiting employment remains unsolved.

Is it true that an insoluble employment problem has appeared in Chinese cities? Of course not. Investigations in many cities show a great many job opportunities. The problem remains that many young people have not found suitable jobs, while many essential jobs are left undone. Despite the increases in urban population and production, there has been a drop in the number of shops in the retail, food and beverage, repair and service trades, causing much inconvenience to the people. Requiring mostly manual, unskilled labour, such businesses should be expanded. If the state tries to operate them all, it cannot run them well. For a time, young people looking for jobs in many cities were forbidden to establish co-operative or individual businesses. In some cities they were permitted to do so but were subjected to many irrational restrictions. For instance, they received lower pay and fewer benefits than workers in state enterprises and had to turn over their extra profits to the local authorities. This has prevented a faster growth of co-operative businesses.

The central authorities have recently encouraged people looking for jobs to establish co-operative businesses responsible for their own profits and losses in the consumer and service trades in cities, pointing out the need to give them proper leadership and financial assistance and to free them from irrational restrictions. The government also encourages young people awaiting jobs to run businesses on an individual basis. In response to the call from the central government, the authorities in many cities have found employment for millions of young men and women. Since the founding of New China, the population in the country has nearly doubled, but agricultural production increased by more than three



times and industrial production by more than 30 times during the past 30-odd years. Since we were able to solve the employment problem when New China was just founded, it would be inconceivable to deny our ability to do the same today. Over the past two decades, we've held the erroneous view that a socialist state must attend to everything in the life of all, or at least all urban citizens. Thus people looking for jobs were not allowed to earn their living in private enterprises, even those that benefit the public. The result has been the "iron rice bowl" system: people awaiting jobs depend entirely on the state for employment, and after being employed they may get promotion or awards but not demotion or penalties or dismissal. The state has taken on too heavy a burden, and the initiative of the job-seeking young people to acquire greater professional proficiency has been fettered. This system should, therefore, be got rid of as soon as possible.

In the reform of China's employment system, it is a most important and arduous task to abolish the above-described "iron rice bowl" system, which has its origin in the "supply system" practised during the years of revolutionary war. With such a long history, it has made it difficult for us to employ people according to their competence or allocate labour force according to work quotas, posing a great obstacle to improvement in labour productivity. Liu Shaoqi proposed, way back in 1956, that such an "iron rice bowl" system be replaced by a contract system as far as new workers are concerned, whereby these new workers may not only become employed or promoted, but may also be dismissed or demoted. If this proposal had been accepted, 50-60 million workers out of the total of 80 million now working in state enterprises would have been freed from the "iron rice bowl" system. Unfortunately, Liu Shaoqi's idea was turned down because some comrades insisted on the superiority of the "supply system". It is now time for us to do away with this system, which hampers the modernization of our national economy. New stipulations should now be worked out for employing people according to their competence on a contract basis. There should be a probationary period for all new workers, and routine checks should be made so that the qualified may be retained or promoted and the unqualified dismissed or demoted.

As for those already on the payroll, it is also necessary to incul-

cate in them the necessity of breaking the "iron rice bowl". Over the past few years, many factories have experimented with new ways of employment. New workers are recruited under a contract system while those already on the payroll are subject to dismissal or demotion or job transfer if they are really not qualified or have been habitually absent from work without good reason. Those who get promotion for good work performance may receive a pay raise; those who are demoted, a deduction in pay; and those who are dismissed may find another job with state help or on their own. As for those who have committed serious mistakes and have refused to mend their ways despite repeated admonitions, they may be expelled from the factory with the consent of its workers' congress. Relief funds may be issued to these people if they cannot find another job and if livelihood becomes difficult for them. Successful experience in these new ways of employment should be summed up and publicized for wider application.

With the new employment policy, it is necessary to create more jobs in every possible way so that people with professional skills, including those who are dismissed, may put their knowledge to good use. The state should give necessary help to the co-operative or individual businesses run by job-waiting urban people. To create more job opportunities for young people, many cities have now established various labour service corporations, or production service co-ops, which conduct technical training programmes for them with the assistance of retired workers. Efforts have also been under way to help them overcome difficulties in such matters as business sites, fund, equipment and raw and processed materials. These organizations should investigate social needs, draw up general employment plans, give guidance to the young people and encourage them to explore job possibilities in line with the requirements of the people.

Compared with their counterparts in rural areas, officials in many cities are conservative in encouraging job-waiting young people to seek for jobs by themselves. They fear that some people with special skills and good at management might "go capitalist" if they make too much money. Some city authorities have set restrictions on, or even confiscated, the income those people have earned through honest labour. In fact, these people should, as are the specialized

households in rural areas, be encouraged to earn more as long as they abide by state policies and decrees and use their own labour without exploiting others. If their income is exceedingly high, the state may levy a certain amount of income tax on them according to law. The labour service corporations and production service co-ops may have these collective and individual workers organized and collect, for the latter's own collective welfare facilities, a specific amount of fund from them when their income exceeds a certain limit. In Weihai of Shandong Province, for example, such collective and individual workers have, on an average, earned more than workers in state enterprises and they now also enjoy such benefits as free medical service and retirement pension. Consequently, such people have nothing to regret over the end of the "iron rice bowl" system; with the consolidation and growth of the collective and the individual economy, employment problem has been solved there. Such collective and individual economies should be encouraged in all cities.

Since all the Chinese peasants are now in collective economic units, it seems that there is no longer unemployment among them. Actually, surplus manpower has appeared in many such units because of excess rural population growth and the sluggish development of agricultural production and, moreover, because of the one-time restrictions on rural diversified undertakings. This trend will become more obvious in the course of agricultural modernization. For more than a decade, interference and sabotage by the Lin Biao and Jiang Qing counter-revolutionary cliques led to an eradication of many legitimate rural household side-lines as "capitalist pursuits", closing off many avenues of productive undertakings. In fact, many jobs can be created in the rural areas. There is some surplus manpower in the rural areas along the southeast coast because of the dense population and limited farmland, but even in some of these areas the manpower can be made good use of, thanks to the growth of a diversified economy and the commune industries. In many of the vast and thinly populated hilly and pastoral areas of southwest and northwest China, which abound in natural resources, the peasants and herdsmen can develop forestry, animal husbandry and side-line occupations in diverse ways. But as varied productive pursuits were discouraged in

these areas for many years, there was a huge artificial surplus of manpower. To fully utilize their labour force, the local people should be guided to develop the available natural resources (hilly and mountainous land, water surfaces, pastures, unreclaimed land, etc.) and go in for crop cultivation, stock breeding, aquiculture, farm product processing and other side-lines; at the same time, the transportation and marketing of the local products should be seen too. The local peasants and herdsmen will then have a more secure life and will not move to other regions. Their areas, when well developed, may even offer jobs to people from the densely populated ones.

World experience shows that influx of the rural population into the cities is one of the major reasons for difficult employment in the urban areas. China strictly restricts the immigration of rural people into cities, and this has in a way eased the urban employment problem. But this is no fundamental solution. From 1970 onward, many cities have tried to disperse some of their industries to the rural areas by developing a wide variety of commune enterprises involved mainly in crop cultivation, stock breeding and aquiculture as well as manufacturing industries, commerce, building and transportation. This has achieved good results. Since the Third Plenary Session of the Party's Eleventh Central Committee, peasants have prospered rapidly with the redress of the former erroneous rural policies. Peasants in the countryside around many big and medium-sized cities have earned more than the urban residents; with a more secure life where they are, these peasants no longer think of squeezing into the cities. From a long-term point of view, we should open up the vast and thinly populated areas in the northwest and the southwest, which enjoy rich natural resources. The coastal provinces should be encouraged to invest in these areas and young volunteers rewarded for going to work there. Turning to good account the human and land and other material resources—this provides a fundamental solution to the nationwide employment problem in China.

### **5. BALANCING THE NATIONAL ECONOMY**

Overall balance is the key link in our economic planning. While

the local authorities and enterprises in China are being granted greater decision-making power, we must pay closer attention to the overall arrangement of the nation's financial and material resources to ensure a balance between production and demand. The basic aim of overall balance is to handle correctly the relations between national construction and the people's livelihood, i.e., between accumulation and consumption, the relations between agriculture, light industry and heavy industry, which reflect the above relations, and the proportions within each of these three sectors. These relations are highly complicated. The way to achieve overall balance is not to set targets for thousands of products, but to concentrate on a few major ones. Specifically, we should first consider the balance between state revenue and expenditure and the government's credit balance, and then the balance between total supply and demand in terms of the gross value of social products. Along with the expansion of our international economic ties, we will also have to consider our foreign exchange balance, i.e., the balance of our international payments.

Under the national economic plan, the financial authorities in a socialist country concentrate an enormous sum from the net income (surplus products) of the various departments of material production and use it as investment in their fixed assets and as expenditure for national defence and government administration, for cultural, educational and public health undertakings, for scientific research, for social welfare, etc. In the past, profits of state enterprises and taxes collected from collective enterprises were redistributed almost wholly through financial channels. The investment in fixed assets mainly came from state allocations. Thus state revenue and expenditure mirrored a synthesis of the nation's major economic activities. Overall balance in the national economy was achieved mainly through arrangements regarding state revenue and expenditure. Since the Third Plenary Session of the Party's Eleventh Central Committee, local authorities and enterprises have been granted greater decision-making power, which entitles them to part of their revenues or profits. Thus local authorities and enterprises have more and more funds at their own disposal and can start small and medium-sized construction projects and technical innovations with their own investment. At the same

time, the rapid increase in bank deposits by both enterprises and individuals has enabled banks to provide enterprises with loans; these loans can be used for projects that need small investment but yield quick returns and so are effective in tapping production potentials through technical innovations and transformation. It can be envisioned that, in the days to come, bank loans will constitute a major supplement to state allocations in our economic construction. Thus the state must control the amount of bank loans issued for investment in fixed assets and avoid excess extrabudgetary investment so as not to outrun the national economic construction plan.

As major measures for maintaining the balance between revenue and expenditure, the state must control investment in fixed assets, the total payroll and the margin for the increase of the purchasing price of farm products. In other words, it must control the amount of accumulation and consumption funds so that their combined total does not exceed the total national income. In 1979 and 1980, the state budget showed a large deficit because investment in fixed assets was not brought down as required while increase in total payroll (including bonuses) and in the purchasing prices of farm products went beyond the planned limit. In 1981 and 1982, however, state revenue and expenditure were roughly balanced because of effective state control in all these respects.

While balancing its revenue and expenditure, a socialist state must guarantee its credit balance. In New China the balance between revenue and expenditure used to be the real basis for overall economic balance, while credit balance only played a supplementary role. Investments in fixed assets were provided entirely in the form of state allocations as were regular sums of circulating fund. The banks were responsible mainly for the extension of loans to cover the circulating funds needed in the exchange of products. In the course of such exchange, the banks often balanced income and outlay when a buyer contracted a loan and a seller returned one. An enterprise might also balance its income and expenditure in due time by using a loan for the procurement of supplies and paying it back after selling its products. Since the loans provided by the banks may now be used for investment in fixed assets (mainly technical innovations in enterprises), the state must

now limit the sum total of the bank loans so as to ensure credit balance. It should be particularly noted that balance between revenue and expenditure is a major guarantee for credit balance. In case of financial deficit, inflation will occur if additional money is issued to make up such deficit. In 1979 and 1980, when the state budget showed a deficit, too much money was issued, causing a rise in prices. Efforts have been made over the past two years to put the situation under control. By and large, prices are becoming stable again.

A balance in credit does not mean that banks must not issue additional money for circulation; instead, money should be kept in conformity with the actual needs. With the growth of commodity production and circulation, it is necessary for the state to issue more money accordingly. But if the commodity output does not meet the market demand, the circulation channels will be clogged, more and more commodities be overstocked, and the banks will not be able to recall the loaned circulating fund or agricultural loans on schedule, then the banks may also be compelled to issue more money. Despite that overstocked commodities may help ensure market supply, they make more currency issue imperative. It is, therefore, necessary to reduce above-plan overstocking of goods, some of which may be sold at lower prices so as to repay the bank loans and prevent an over-issue of currency. Over the past few years, increase in the peasants' income has ensured the recovery not only of most of the newly granted agricultural loans but also of part of those extended some years ago. Now that the peasants have more and more cash in their hands, it is necessary to open more circulation channels for industrial goods to reach the rural areas in order to withdraw such surplus money.

Apart from the balance of state revenue and expenditure and credit balance, there should also be a balance of supplies. This means a balance between the scale of national construction and the supply of capital goods and a balance between purchasing power and the supply of commodities. Here we are speaking of the balance between *total* supply and demand, not the balance between supply and demand in the case of a single product, which should be handled by those in charge of its production and marketing. Only a balance between *total* supply and demand will

enable the supply and commercial departments to ensure a balance between supply and demand in the case of every single product. Since 1958, there has been an imbalance between total supply and demand almost every year, and the supply of both capital goods and consumer goods has fallen short of demand, while failure to meet consumer needs has caused the overstocking of some items. To solve the contradiction, many comrades asked for a faster growth in production and consequently more capital construction. Instead of solving the contradiction, this line of action aggravated it.

In view of the above situation, some comrades believe that an imbalance between supply and demand is an objective law which a socialist country cannot avoid. This is not true. It is possible for us to ensure a relative balance between supply and demand. The fundamental cause of the imbalances that appeared in our country lay in our failure to achieve overall balance in the circumstances of an excessive rate of accumulation and an over-extended capital construction programme, which compelled us to hasten the development of heavy industry at the expense of agriculture and light industry. As a result, the supply of consumer goods has fallen short of the demand of the urban and rural people. To hasten the development of heavy industry, however, the capital construction programme had to be further expanded and more capital goods procured. This caused an even more acute shortage of capital goods. Meanwhile, funds and supplies for agriculture and light industry were often cut down, aggravating the shortage of consumer goods.

Experience in the past two decades or more shows that, whenever we set an unrealistic high rate for production and accumulation under the influence of the "Left" guidelines, there will always be a shortage of both consumer and capital goods. Since the Third Plenary Session of the Party's Eleventh Central Committee, and especially since we slashed investment in fixed assets and slowed down the growth of heavy industry in 1981, there has not only been an ample supply of consumer goods and an excess supply of some particular items, but also a richer supply of capital goods, which were often in shortage in the past; the import of steel has been cut down by a big margin; production of the



machine building industry has been under capacity and sales of its products have to be vigorously promoted. This shows that under the specific conditions in China, the only way to keep a rough balance between supply and demand is to reduce the scale of the capital construction programme. This gives the lie to the argument that the said problem can be solved only by increasing investment.

China's trade and economic co-operation with foreign countries have expanded since the establishment of diplomatic relations with the United States, Japan and some other capitalist countries and since the initiation of our policy of opening to the outside world. Such trade and co-operation are expected to grow rapidly and we must ensure the balance of our international payments. To speed up socialist modernization we should expand trade and other economic co-operation with foreign countries and import advanced technology and equipment in a planned way. But this is being limited by the small volume of our exports. Many countries are ready to supply machinery and equipment to us through loans or delayed payments. While these methods are usable, we must consider our ability to pay the debts thus incurred. The basic way to repay foreign loans is to increase our exports. Apart from expanding the production and export of traditional items, we must also use imported technology, equipment, raw materials and parts to produce more exports. We may produce goods from imported materials, process goods with materials supplied by clients or conduct compensatory trade. The pay in China is low, but the workmanship is good. Such processing industries can be highly competitive internationally. Thus there are broad prospects for increasing our foreign exchange earnings.

To achieve a faster rate of modernization, we should import advanced technology and equipment for a number of modern projects which require large capital funds and take a long time to complete, for example, offshore oil exploitation, open-cast mining, mine improvement and railway and harbour development. In addition, to repay foreign loans as scheduled, we should use even more foreign capital, technology and equipment to build a number of small and medium-sized projects which require smaller investment and take a short time to complete, and we should pay special attention to the technical transformation of the existing enter-

prises. Thus, we can use the returns from small, short-term projects to finance the large, long-term ones. Furthermore, we should work out a long-term plan for balancing our international payments in 10 or 20 years. Too many big projects started at once would have our hands tied with foreign debts and damage our economic independence.

## 6. BUSINESS ACCOUNTING UNDER SOCIALISM

Scientific business accounting is essential for effective economic planning in a socialist country. The basic aim of business accounting is to see that all enterprises and the whole nation strive to achieve the maximum economic results through a minimum consumption of labour. This is the only way to ensure a rapid rise in production and living standards. For a long time we tried to develop production speedily by laying blind emphasis on output and output value without concern for economic results and by wastefully enlarging the capital construction programme without concern for the returns on the investment. There was not much to show for the people's hard labour.

Business accounting deals with three kinds of relations:

1. The relation between the cost of production and the value of the product. Production cost should always be less than value of the product, while their difference is the surplus product created in the course of production. Business accounting encourages enterprises to increase profit (the surplus product) by reducing production cost. For this purpose, they have to raise labour productivity and economize on the consumption of man-hours, raw and processed materials, fuel, power, etc. The bigger the surplus product from each enterprise, the greater the ability of the state to improve the people's livelihood and expand the construction programme.

The enormous number of products, however, makes it impossible to calculate production and consumption materially. Both have to be counted in terms of value and their monetary form, i.e., prices. Therefore, how accurately prices approximate values is significant in business accounting. If prices vary too far from values,

the surplus products created by one enterprise may be transferred to another through an exchange at unequal values. To measure the growth in production accurately, currency must symbolize a specific quantity of social products or, in other words, prices must be kept stable. Changed prices have to be converted on the basis of price indices.

2. The relation between value (socially necessary labour) and use value, or the creation of maximum use value through a minimum consumption of labour. The same products of differing quality contain different use values. For example, if the life of an electric bulb, a motor car or a TV set is doubled, its use value is also doubled or, in other words, the economic result of its production is doubled. Generally speaking, a high-quality product consumes more social labour. To see that our business accounting reflects this situation, we should set prices according to quality. If two products of the same kind are different in utility, their prices should also be different.

3. The relation between production and demand. Products turned out by an enterprise must meet the needs of national construction and the people's livelihood. Products exceeding social demand have little or no use value. Their values cannot be realized or, in other words, the labour consumed in their production cannot be recognized by society and is therefore wasted. In the case of overproduction in a capitalist country, either production is restricted or goods destroyed. If products from our enterprises do not meet market demand and are overstocked, their production is economically ineffective and brings losses to the state and the people.

Serious waste has resulted from our neglect of business accounting over the years, as manifest in three respects:

1. *Production.* We often limited our attention to output and output value and contented ourselves with a false "high-speed development", while the actual economic results worsened. To measure production growth, the government had to use these two indices—output and output value. But a failure to analyse these two indices has resulted in waste. For example:

(1) Many enterprises produced large amounts of substandard products because they devoted exclusive attention to quantity and neglected quality. In the past two decades and more, the quality of

many products has not improved but even worsened. Although the targets for output and output value were overfulfilled, losses were caused to the state and the people. Thus from now on, special attention must be paid to the quality of products; enterprises of all trades must trial-produce new products and keep improving and updating their goods.

(2) Because of their preoccupation with output targets, many enterprises neglected to economize on raw and processed materials, fuel and power. Between 1958 and 1960, the consumption of coke for every ton of pig iron produced from a small blast furnace was three or four times that consumed in a large furnace, and the cost of the raw and processed materials consumed was often higher than the value of the products. The total value of output from the small blast furnaces was a positive number, the net output value was a negative one. In the past, many small blast furnaces and small chemical fertilizer plants operated at costs two or three times that incurred by the larger ones because of poor management or a lack of raw materials. This was true of many other factories. In 1976, 37 per cent of the state industrial enterprises suffered losses totalling more than 7 billion yuan. After a few years of revamping, the situation has greatly improved, but the problem is far from being entirely solved.

(3) To fulfil the targets for their output and output value, many enterprises produced large quantities of unmarketable products. Thus an acute shortage of many products coincided with the large stockpiles of goods rotting and rusting in warehouses.

In 1978 and 1979, about eight million tons of rolled steel were imported each year while nearly 19 million tons of such product from domestic mills, over six million tons more than in 1977, were piled up in warehouses. By 1980, the total value of mechanical and electrical equipment in stock exceeded 60 billion yuan, a large portion of which overstocked for no good reason. This meant tremendous losses to the nation.

There are many factors accounting for this state of affairs. If we look at the problem from the standpoint of business accounting, the main trouble is a reckless drive to achieve output and output value targets in disregard of economic results. The Central authorities have begun to tackle these problems. When they are solved,

the economic results will be much greater in spite of a slight decline in the growth rate. The rate of industrial growth in China is much higher than those in developed capitalist countries, but the economic results achieved here are poorer. This merits our attention.

2. *Capital construction.* We often laid undue emphasis on increasing capital investment and expanding the construction programme. As a result, projects took an ever longer time to build, the returns on the investment became ever smaller, and many projects could not go into operation long after they were completed, causing astonishing waste. For example:

(1) In violation of the regular construction procedure, many projects were hastily started before designs were completed, or construction began simultaneously with prospecting and designing. Work on many projects had to be done over again, prolonging the construction period and entailing astonishing waste. Also, due to their irrational layouts, many completed projects are suffering from defects which cannot be corrected for years.

(2) As the supply of equipment and building materials could not keep pace with the expansion of the capital construction programme, many projects were often held up for lack of materials or equipment, and hundreds of thousands of workers, engineers and technicians had nothing to do for a long time. During the 1st FYP period, the key projects generally took about five years to complete. Today construction of a quarter of the projects takes more than ten years. If we had cut the construction period by three or five years, many projects might have yielded enough returns to pay back for the investment.

(3) Co-ordination was poor among the different parts of a project. After the main part of a project was completed, some of the auxiliary parts were still progressing slowly or were delayed for a long time. Many tall apartment buildings were finished in six to twelve months, but it took much more time to fit the sewage, water and power supply systems and the heating facilities. Thus the buildings could not be used long after they were constructed.

Between 1958 and 1980, total investment in capital construction in China came to more than 700 billion yuan, while the newly acquired fixed assets totalled only 450 billion yuan, or a little over

60 per cent of the total investment. If this situation is not changed, a speedy development of the national economy is obviously not possible. The rate of economic growth is determined not only by the rate of accumulation but also by the economic results of the investment. During the 1st FYP period, the rate of accumulation was only 24 per cent, but the economic results of the investment were good, resulting in a high rate of economic growth. In subsequent years, the rate of accumulation was raised inappropriately to more than 30 or even 40 per cent, but the accumulation fund was not properly used and the results of the investment were poor, causing a sharp drop in the rate of economic growth. A higher rate of accumulation cannot compensate for the poorer results of investment. To develop the economy speedily, it is necessary to maintain a certain rate of accumulation, but an even more important point is to increase the economic results of investment.

3. *Labour power.* China has a big population and much manpower. Many comrades tend to think that a minor waste of manpower is insignificant. However, the waste of labour time is the biggest waste. During the 1st FYP period, it was necessary to adopt a policy of widening employment at low wages for a speedy solution of the employment problem. Even so labour productivity rose 52 per cent in five years amidst the fast growth in industrial production. In the 20 years that followed, the ups and downs in production have resulted in a slow rise of labour productivity and, in some years, even its decline in state enterprises. For instance, labour productivity rose at an annual rate of 8.7 per cent during the 1st FYP period and 2.5 per cent during the 3rd FYP period, but it showed an annual decline of 0.3 per cent during the 4th FYP period. Consequently, our labour productivity, which was drawing closer and closer to that in the developed capitalist countries during the 1st FYP period, has now lagged further behind. Six times more workers are needed in light industry and 11 times more in heavy industry to produce the same quantities of goods as in those capitalist countries. If things go on like this, there will be no modernization. China's low level of science and technology is indeed an important reason for the low labour productivity in its industry, but a more important reason is poor management, inc-

cluding bad organization and slack discipline. Government departments and public institutions are overstaffed and are burdened with superfluous posts and offices. This is not only a waste of manpower but feathers the nest of bureaucracy. Things like this have become a serious obstacle to socialist modernization and must be thoroughly eliminated.

Good business accounting in a socialist enterprise is achieved through its own initiative rather than supervision by specialized government agencies, the financial authorities and the banks. The fixed assets and regular circulating fund of an enterprise used to be given gratis by the financial authorities. The enterprise had to turn over all its profits to the state, its products were purchased and marketed by state commercial departments, and its labour force was handled by state labour departments. Given no power or responsibility, the enterprise did not concern itself with the question of waste. Mere supervision from the higher authorities cannot ensure good business accounting if the enterprise is not interested. It is necessary to make an enterprise economically responsible for the use of state funds and give it more power to handle its profits. It should be provided with a business fund for developing technical innovation and transformation. Part of the extra profit earned through improved management may be used for the workers' collective welfare or distributed as bonuses among workers who have made greater contributions. The superiority of the socialist system cannot be brought into full play unless the interests of the state, the collective and the workers and staff, including the factory leaders, are integrated, and all are interested in increasing production and practising economy.

## Chapter VIII

### THE SYSTEM OF ECONOMIC MANAGEMENT IN A SOCIALIST COUNTRY

#### 1. CHANGING THE SYSTEM OF ECONOMIC MANAGEMENT

After the establishment of socialist public ownership of the means of production, a socialist country must set up a system of economic management suited to such ownership. Commenting on the third edition of the Soviet textbook, *Political Economy*, Mao Zedong pointed out in early 1960 that the socialist transformation of the ownership of the means of production must be followed by a solution of the management problem. We should not assume that the socialist system will automatically demonstrate its superiority once the means of production are placed under socialist ownership. A sound system of management speeds up the development of productive forces while an unsound one hinders it.

The benefits of the socialist economic system are mainly two-fold: First, since the means of production are under public ownership, the state may utilize the nation's manpower and material and financial resources on a plan and regulate all economic operations in the country in a unified way, avoiding the anarchy in production typical of a capitalist economy and the enormous waste of manpower and other resources resulting from it. Secondly, since the system of exploitation has been abolished and all working people have become masters in production, the state may achieve a high rate of economic growth by making full use of the initiative and creativeness of the central government, the local governments, the enterprises and the labourers. These two aspects of the superiority of socialism are both interrelated and contradictory. If unified state leadership over the economy is unduly interpreted as



centralized management and is allowed to weaken the power of the local authorities and enterprises to manage their own affairs, our economic life will stagnate and the enthusiasm and initiative of the local authorities, enterprises and working people will be dampened. Such a system of management would become an obstacle to the development of productive forces. On the other hand, over-emphasis on independent management by the local authorities and enterprises and a weakening of unified state leadership over the economy would lead to anarchy.

China's present system of economic management is modeled after the Soviet one adopted during the Stalin era. It is characterized by over-centralization and management through administrative means. The targets set by the central government are dictated to the local authorities and enterprises regardless of their suitability. The country's revenue and expenditure are all controlled by the central government. Except for specified allocations to local governments, all kinds of financial revenue are delivered to the central government. All investments in extended reproduction and all public undertakings are handled by the central government, which allocates them to the ministries for re-allocation to local authorities, enterprises or institutions for designated uses. At the local level, a sum of money may only be used as designated. Only a small portion of the local tax income is at the disposal of local authorities. The enterprises turn over to the state not only their profits but most of the money set aside to cover depreciation costs, which is likewise under the control of the central government. As for the distribution of products, the capital goods are allocated by state organs, while the consumer goods are purchased and marketed by state commercial agencies.

The advantage of this system lies in the state's concentrated use of its financial and material resources on projects vital to the economy. Its disadvantage lies in a neglect of the special needs of the localities and enterprises, which cannot make rational use of their own manpower and material and financial resources. Rigid control fetters initiative and is therefore detrimental to achieving a maximum of economic results through a minimum expenditure of resources.

Centralization by the central government actually means decen-

tralized control by its different economic departments. It is impossible for the leading economic organs of the central government, including the State Planning Commission, the State Economic Commission and the State Capital Construction Commission, to take charge of the economic operations in every industry or trade; some have to be left to the ministries. In the past, over a dozen ministries under the central authorities were in charge of production, but they could not attend to all economic work. Every ministry had several bureaus, each of which was responsible for a particular trade. In addition, there were departments in charge of finance, material supplies and the country's labour force. The flood of directives issued by the departments to the local authorities made it impossible for the latter to achieve overall balance in their regions. In making arrangements for projects to be built, ministries and bureaus often wanted only to make their job easy and so failed to consult with the localities and other ministries and bureaus. This cut the economic ties between the industries and trades and ran counter to the principle of specialization and co-ordination that must be observed in large-scale industry. Many of our factories, large and small, tend to be all-inclusive because the present system of management compels them to rely on no one but themselves. An administrative control which separates the inherent connections between economic operations – this is the basic defect in our economic management system.

China has a population of one billion and a territory of 9,600,000 square kilometres. Some provinces are as large as countries in Europe. Unified leadership must be coupled with management at different levels. In his 1956 speech, "On the Ten Major Relationships", Mao Zedong criticized the shortcomings of over-centralization and pointed to the need to bring into play the initiative of both central and local authorities. In 1958, we expanded the power of local authorities so that they had the right to invest in their own projects. Local industries flourished wherever work was done well, laying the foundation for further development in subsequent years. However, we were a bit too hasty and the work was overdone. In addition, our leading economic organs failed to achieve overall balance on a national scale in matters of manpower and material and financial resources. They also committed the

error of setting unrealistic production targets, exaggerating successes and giving arbitrary directions. While the construction targets set by the central authorities were already high, they were further raised at local levels, unbalancing the national economy and forcing us to give up many new projects. At the end of 1960, the Party Central Committee put forward the policy of "readjustment, consolidation, filling out and raising the standards", slashed the capital construction programme and readjusted the proportions between agriculture, light industry and heavy industry. This policy brought about a quick, all-round improvement in the national economy. Without a thorough analysis of our experience, however, we did not realize that the basic cause of the imbalances lay in the unrealistic targets and in our failure to make overall arrangements and to incorporate the central and local construction projects into a unified state plan on the basis of objective possibilities. Instead, we took the view that too much power had been granted to the localities. As a result, our system of economic management returned to the pre-1958 track.

The old system of management granted too little power not only to the local authorities but, worse still, to the enterprises. As stated earlier, an enterprise had to turn over to the state all its profits and even most of the money to cover its depreciation costs. All funds were controlled by the state. An enterprise had to apply for an investment allocation when it wanted to rebuild or expand its premises. When a major overhaul or a renewal of the equipment was needed, it could only keep to the standards of the original design and was not allowed to increase its value, change its shape or update the technology. If it wished to change its technology, it had to submit a capital construction plan to the higher authorities for approval. In production it simply followed plans issued by higher authorities, and the supply of materials it needed and the marketing of its products were both handled in a unified way by the government departments concerned. All this bound it hand and foot so that it could not readjust its economic operations on its own by using its own advantageous conditions. Moreover, the quality of management in an enterprise did not have any immediate bearing on its economic interests: it neither got any material incentives for good management nor bore any responsibility

for poor management or losses. This was what is called "everybody eating the rice cooked in one big pot". Under these circumstances, an enterprise depended entirely on the state, showing no interest in improving its performance. Such being the case, many enterprises were poorly managed, lacked technical progress and suffered economic ineffectiveness. Many of the factories we built in the fifties or sixties were technically advanced at the time. But they have lagged far behind similar factories in capitalist countries because, among other things, they have not been granted the necessary decision-making power to conduct economic activities in a way best suited to their actual conditions.

Mao Zedong once stated that the basic principles for the management of the national economy were "unified planning and management at different levels" while Chen Yun pointed out the necessity of "planning in major affairs and flexibility in minor ones". Twenty years have elapsed since these principles were advanced, but they have not really been put into practice. We had prepared the conditions for a reform in the management system on the eve of the Cultural Revolution. But the stable order established by then was completely upset during the ten chaotic years that followed. In those years, state plans were no longer effective, a semi-anarchy prevailed in the economy, and reform was out of the question. In the years since the collapse of the Gang of Four, we have re-established economic order and the managerial practices which proved effective in the past and have achieved initial results. While continuing to consolidate the economic order and eliminate the confusion in the management of enterprises and the economy, we must gradually change our management system to meet the requirements of socialist modernization. On the one hand, we must improve our economic planning, especially the overall balance of the economy, so as to ensure a planned, proportionate development. On the other, we must make up our minds to enlarge the power of the local authorities and especially the power of the enterprises, establish a democratic management system and link the quality of their management with their own economic interests. We must manage the economy with fewer administrative methods but more economic means in accordance with objective economic laws.

In changing the economic management system, we must adhere to the socialist road and pay attention to the following two principles:

1. Adhere to a planned economy, use correct methods of planning and give full scope to the initiative of the local authorities and the enterprises. The state should incorporate all economic operations in the country in a unified plan and, under the guidance of this plan, directly or indirectly co-ordinate the activities of all departments, all areas, all enterprises and all collective economic units. At the same time, we must understand that, as China's productive forces, especially those in agriculture are still at a low level and as commodity production and exchange still exist in the country, our planning should combine relative centralism with a certain measure of flexibility. Different methods of management should be adopted for the two kinds of public ownership. The economic sector under collective ownership should enjoy more decision-making power than the sector under ownership by the whole people. There are also differences among enterprises owned by the whole people, and it is impossible to handle all of them in a single way. Planning can only provide the general direction and key ratios of economic development but not the details. While enforcing the necessary plans of a mandatory nature, we should ensure the implementation of guidance plans by utilizing the economic levers. It is necessary to bring into play the initiative and vitality of the local authorities and the enterprises instead of moving them like beads on an abacus. We should let them handle everything they can, give them more power and responsibility and combine the interests of the central government, the local governments, the enterprises and the labourers.

2. Make sure that our economic management system gradually develops in the direction of specialization and co-ordination in the course of agricultural and industrial modernization. This is something essential for large-scale, highly socialized production. In this respect we have much to learn from the useful experience in developed capitalist countries. For the present, we have to take into consideration the fact that China's agriculture is still a partially self-sufficient economy. But it will change in the direction of specialization and co-ordination sooner or later. The degree of

socialization of China's industrial production remains at the international level of the late forties. The present system of economic management is unfavourable to specialization and co-ordination and to our efforts to catch up with and surpass the advanced world levels. Management along administrative lines of division, i.e., a management divided up between the central ministries or between the local governments, cuts off the links between industries or areas and does not conform to the principle of specialization and co-ordination. Such an administrative set-up for economic management should gradually be replaced by economic organizations transcending the barriers between industries and regions. Breaking through the dividing line between the two systems of ownership, state enterprises and collectives may establish joint ventures which combine production with marketing on the basis of specialization and co-ordination.

In line with the above two principles, the present reform in our system of economic management should fulfil two urgent tasks. One is to change the management system in the enterprises, including the collectives, so as to give vigour and vitality to these grassroots units. The other is to change the system of management of the national economy so as to adapt it to large-scale socialized production and thus remove the obstacles to socialist modernization. These are highly complicated tasks involving many aspects of our economic life, such as the circulation of products, the wage system, the price control system and the planning system. I have stated my views on some of these questions in previous chapters and shall not repeat them here.

In reforming our system of economic management, while we may draw on the experience of other socialist countries and some capitalist countries, we should proceed from our actual conditions and should not mechanically imitate what is done abroad. At the same time, we should be aware that because the present system has remained in force for years, many people are used to it. A change in the system will affect the interests of many quarters. Thus it is likely to be handicapped by conventional ideas and meet with resistance. We must be bold in our thinking and action. At the same time we must be practical in our work and continually gain experience through experimentation.

## 2. REFORMING THE MANAGEMENT OF STATE ENTERPRISES

State enterprises are grassroots units of business management under ownership by the whole people. Under the guidance of state planning, they should have the power to handle their financial, material and manpower resources and should endeavour to obtain a maximum of economic results through a minimum expenditure of labour. Under the existing system of management, however, state enterprises submit to unified state control over its income and expenditure and receive state allocations for all its spending, which is known as "everybody eating the rice cooked in one big pot". Workers are hired but not fired, promoted but not demoted, a phenomenon which we call an "iron rice bowl". Many comrades mistake these practices as signs of "the superiority of socialism". In fact, they are remnants of the supply system used during the revolutionary wars and have become a major obstacle to socialist modernization.

As is known to all, an enterprise in a capitalist country is under the exclusive management of a capitalist or a group of capitalists. To survive market competition, it tries its best to improve production technology and management and reduce the consumption of manpower, material and money. The purpose is to bring in a maximum profit by using a minimum of capital. Under the capitalist system, production is unplanned and unorganized on a national scale and causes astonishing waste, but it is carefully calculated, planned and organized in a particular enterprise or monopoly group. We may learn a lot from their methods of management which are based on several hundred years of experience. A socialist enterprise must change the backward methods of management, metaphorically compared to everyone using an iron rice bowl to eat what is cooked in the same big pot. Otherwise it will be impossible for socialism to triumph over capitalism by creating a higher labour productivity.

As pointed out by Chen Yun, the socialist transformation of private industry and commerce we initiated in the 1950s was aimed at eliminating the exploitation of workers by the capitalists, while the purpose of the present reform is to do away with the

practice of "everybody eating the rice cooked in one big pot", to break the "iron rice bowl" and to establish the policy of "more pay for more work and no pay for no work". This reform is of no less significance than the socialist transformation of private industry and commerce.

To improve the management of an enterprise, we must grant it specific decision-making power regarding the use of its own human, financial and material resources, the procurement of materials, the production arrangements and the marketing of its products; and we must make it bear specific economic responsibility for its profits or losses. All this is aimed at arousing the initiative of the enterprise in its operations and enabling it to become an economic unit full of vitality. We have, in the past three years, carried out reform in the system of enterprise management in line with the above principles, beginning with extending the enterprise's power to make its own decisions. Essentially, this means the following:

First, establishing a profit retention system with its various forms to replace the government's monopoly control over the income and expenditure of an enterprise, thus linking the result of its management with its economic interests. If an enterprise turns over all its profit to the state and has no fund at its own disposal, it can only carry on simple reproduction, for expanded reproduction will be virtually beyond its power; and it will find it difficult to carry out technical innovation. In addition, an enterprise will be less enthusiastic to improve its operation and management if its performance is divorced from its own economic interests. Obviously, this system impedes a speedy modernization of the national economy.

Since the Third Plenary Session of the Party's Eleventh Central Committee, we have experimented with many forms of the profit-retention system. At first, about 60 per cent of the profit an enterprise produced above a certain base figure (i.e., the profit it made in the preceding year or the average profit of the preceding three years) was turned over to the state while the rest was left to itself. The purpose of this system was to encourage enterprises to improve their management, but the result backfired because the poorly-managed enterprises had a lower base figure of profit than



the well-managed ones and thus the former could reach the base figure more easily than the latter. In addition, because of the fluctuating prices of some products and raw and processed materials, the base figures have to be readjusted from time to time, causing much difficulty. Beginning in 1983, a new system of tax payment in place of profit delivery was introduced on a trial basis, whereby an enterprise pays, for the time being, only a 55 per cent income tax. However, under the same tax rate, some enterprises may not benefit equally because of the irrationalities in our current price system. Therefore, enterprises with relatively big after-tax profits are required, in accordance with different situations, to deliver to the state an extra portion of their profit (or a tax on differential income). This system, which is now being experimented, will be perfected as we gain more experience. Here, our principle is: On the one hand, we must ensure a gradual increase in state revenue along with the development of production; on the other, we should encourage enterprises to improve operation and management by leaving at their own disposal some funds for technical innovations and for rewarding their workers and staff.

With the replacement of profit delivery by tax payment, a well-managed enterprise will enjoy larger funds and speedier growth than a poorly-managed one. This means encouraging the advanced and spurring on the backward. When backward enterprises need to start technical innovations, the state may extend them short-term loans to be repaid on schedule out of their increased profits.

Complicated problems are involved in substituting tax payment for profit delivery and they should be handled by economic means. The profit margins of the enterprises are determined by both subjective and objective factors. Those making a higher profit because of subjective factors, such as good management, should be rewarded, while those making more profit on account of objective factors should, in principle, turn it over to the state. The objective factors include:

1. The price factor. The prices of many products in China show a great variance from their values, an important factor determining profit margin. With the substitution of tax payment for profit delivery, the prices of products must be gradually readjusted to approximate values. If the profit margins on some products are

too wide and yet it is impossible to lower their prices, the extra profits should be turned over to the state in the form of product tax so that all industries and trades will get reasonable after-tax profits under normal operation and management.

2. Mineral resources. Some oil wells produce a few tons a day while others produce hundreds or even one thousand. The state may readjust this difference through taxation. It may also levy resources tax on those coal mines which are especially rich in coal deposits. At the same time, it should subsidize those coal mines which have suffered losses for years because of poor resources. If they save part of the subsidies through improved operation and management, they should be entitled to retain the savings.

3. Labour productivity. Differences in labour productivity result from the use of different kinds of equipment. Such differences are created by unequal sums of state investment and not by unequal degrees of effort on the part of the workers. To solve this problem, the state may introduce a system whereby the enterprises pay different amounts of fees for the appropriation of fixed assets. This will offset the differences in profit margins.

With the introduction of the system of tax payment replacing profit delivery, a greater part of the profit thus retained by an enterprise should be used for equipment renewal and technical transformation and, where possible, for authorized reconstruction and expansion under the guidance of state plans. A smaller part may be used to improve the workers' collective welfare facilities and for distribution to workers and staff as bonuses. The specific proportions should be based on the conditions in each enterprise. If the profit is large, more should be used for technological development and less for collective welfare and bonuses so that the remuneration will not vary too much from one enterprise to another. When necessary, the state may set a maximum and a minimum for such remuneration or practise planned control by levying income tax so as to avoid excessive differences in pay.

Secondly, changing the system by which an enterprise uses its fixed assets and circulating fund. The state used to allocate fixed assets to enterprises for use without compensation. If an enterprise wished to buy more equipment, it had to apply for a financial grant from the state, for it had neither the money nor the power

to expand its equipment or change its technology. Even the director of a big factory employing tens of thousands of workers did not have the power or money to build a canteen or an apartment building for the workers. He had to apply for approval and for an allocation from the higher authorities. Under such a supply system whereby the state exercised exclusive control over the income and expenditure of its enterprises and allocated the money for all their spending, an enterprise could not conduct its own managerial work as a business accounting unit. Since it had no say over its property and bore no economic responsibility, much state money was wasted. When an enterprise applied for an investment, it tried to get as much as possible even if part of it would remain idle. But it had no money for equipment renewal and technical transformation. Applications for investments were often turned down by the authorities or passed on to different levels for approval over a long time. This system was a serious obstacle to modernization.

The way to handle the depreciation of fixed assets in China also has to be changed. Amid the speedy developments in modern science and technology, the depreciation period of equipment has been shortened to anywhere from 5 to 8 years in capitalist countries. In China, it generally remains between 20 and 25 years. Enterprises in capitalist countries have to renew their equipment frequently, while ours are encouraged to repair and utilize the old units and make do with what is available. An enterprise has to turn over to the state most of its money to cover the depreciation of its fixed assets and can only keep some money for major overhauls. Any renewal of existing equipment must be approved and financed by the higher authorities. The use of advanced technology in major overhauls is not favoured but restricted. While an enterprise should be run with industry and thrift, the present low rate of depreciation and the irrational handling of the depreciation fund must be changed.

For this purpose, it is necessary to establish a system of compensated appropriation of fixed assets. State capital investments may be placed at the disposal of the banks, which will grant them to the enterprises for use as fixed assets. In return, the enterprises should pay interest to the banks at regular intervals for the funds thus obtained. A general check-up should also be made on the

fixed assets already in use. On the one hand, the fixed assets belong to an enterprise, which may transfer the surplus assets to the higher authorities for compensated use by other enterprises or may lease or sell them to another enterprise and use the income to buy whatever fixed assets it needs. On the other hand, these fixed assets represent an enterprise's liabilities to the state, for which it should pay an interest or a tax at regular intervals according to state regulations. In the days ahead, investment in fixed assets of big enterprises will continue to take the form of budgetary allocations. The investments are owned by the state but are handled by the banks, which turn over the interest payment on these investments to the state. Smaller sums of capital investment may be granted as direct loans from the banks, to which the enterprises pay principal and interest on schedule.

The system of compensated use may also be applied to circulating fund, which will eventually be distributed as bank loans. The rates of interest on such loans may be lower for regular sums and higher for additional ones and higher still for those used to pay for overstocked goods. This will help eliminate both overstocking and man-made shortages of goods as well as the waste of funds. While the astonishing stockpiles of raw and processed materials and of finished products in various enterprises are mainly caused by defects in the current supply system, they also have much to do with the uncompensated use of circulating fund.

After an enterprise establishes its business fund through profit retention, most of the money needed for depreciation should also be placed at its disposal. Instead of restricting the use of the fund, the state should encourage an enterprise to carry out technical transformation and renewal of equipment with its own money or by contracting short-term bank loans where necessary. However, the usefulness of such funds has to be guaranteed by a sufficient supply of capital goods, which should be provided for in the state plan and made available in every possible way. Plans for major reconstruction or expansion, especially those for new projects, should be submitted to state authorities for approval in the interest of balancing the supply of capital goods.

Thirdly, allowing, when necessary and possible, an enterprise to arrange for increased production, process materials supplied by

the clients and develop new products, on condition that it fulfils the state-assigned production quotas; and allowing it to market part of its products. While it is necessary for the state to enforce mandatory plans in regard to the production of goods needed by projects that are important for the national economy and the people's livelihood, many other products may be covered by guidance plans and the production of a rich variety of small commodities may be left to market regulations. With the different forms of management through planning, the decision-making power of enterprises may differ one case from another. In producing goods covered by mandatory state plans, the enterprises must strictly follow these state plans and make every effort to ensure the fulfilment of the targets. If, in the course of execution, a mandatory plan is found unsuited to the actual conditions, the enterprise concerned may propose changes to the higher authorities and, upon approval, adjust the related targets appropriately. After the state plan is fulfilled, an enterprise should be entitled to tap its potential and use the available energy and raw and processed materials for increased production of goods needed by the market, thus overfulfilling or supplementing the state plan. In implementing the guidance plans, an enterprise should have the right to independently arrange production and sales business on its own according to market demand -- but on condition that it takes into full consideration the needs of the state and have consultations with the departments concerned. As for the many small commodities which are not included in the state plans, an enterprise should be allowed to independently arrange their production in accordance with the supply-demand conditions so long as it abides by the state policies and decrees as well as the regulations of the industrial and commercial administration offices. Enterprises producing these small commodities may adopt such flexible methods as contracting or leasing the operations to collectives or individuals; the state may levy taxes on their operations, the contracting or leasing collectives or individuals should pay for the use of the enterprises' funds and they should take care of their own profits or losses.

To sum up, the decision-making power of an enterprise should be determined by the requirements of the planned management of the national economy and the need to bring into full play the in-

itative and enthusiasm of the enterprise to improve its operation and management. These two aspects should be combined appropriately.

Fourthly, reforming the existing personnel system. The system of management in our enterprises should guarantee the rational use of financial and material resources as well as that of manpower. To this end, the state should allow the enterprises to organize their labour force in line with their respective needs so that everyone may contribute his best, breaking down the "iron rice bowl" system under which one can only be hired but not fired and only promoted but not demoted. Our socialist Constitution states that every citizen able to work has both the right and the obligation to work. The nation's labour force should in principle be taken care of by state planning. However, the job requirements in the enterprises are highly complicated and working ability varies from one person to another. To make the best possible use of people's talents, the state should make overall arrangements, but the enterprises should be free to select its workers and staff members, and each person should also enjoy some freedom to choose his or her job. A combination of the three is a difficult and yet indispensable task.

Most of the people working in our enterprises and government institutions are equal to their jobs and have a chance to make good use of their abilities. But a small number of them are either incompetent or are prevented from using their capabilities. The state should introduce a system of vocational assessment and promotion in order to transfer those who cannot fully use their abilities at their present jobs. An enterprise should have the power to demote those who prove to be incompetent in the course of vocational assessment. It should have the power to discharge, after discussion by the trade union, a small number of workers who have for a long time refused to do a conscientious job or who have committed serious mistakes but refuse to mend their ways despite repeated admonition. The discharged workers may be referred back to the labour departments for new assignments or may also be allowed to find jobs by themselves. For years, many of our enterprises and government institutions have been overstaffed and have shown a slack discipline. To change the situation, it is neces-

sary to simplify the administrative set-ups, strictly review the performances of all workers and staff members, promote or demote them on this basis, and reduce the numbers of workers and staff members so as to raise our efficiency to a much higher level. Workers and staff members removed from their present jobs may be transferred to suitable ones. The young ones may be given a chance to study and the old ones who can no longer work may retire and will be given proper care. In any case, they will not become destitute and left homeless as in a capitalist society. Under socialism, it should be the responsibility of the society instead of each individual enterprise to ensure the employment of the entire work force.

To bring into full play the role of scientists, technicians and other people with special knowledge and skill, the state should give them the right to choose their jobs under certain conditions. Some labour and personnel departments have often assumed a bureaucratic attitude and have arranged jobs for people without regard for their capabilities. Some scientific research institutes have for a long time failed to give proper jobs to scientists and technicians, but would not let them go when they were wanted by other institutions. Some scientists and technicians had nothing to do in their own institutions. When they found suitable jobs, the personnel departments held them back. Some scientists and technicians have not been able to do much work or advance their studies for one or two decades, wasting many of their best years. Such waste of talent must not be tolerated in a socialist society. In particular, at a time when the whole nation is working hard for modernization, it is impermissible for such a wasteful system of labour management to continue.

Fifthly, changing the system of leadership in the enterprise. In the early fifties, in view of the over-centralized leadership in enterprises in the Soviet Union, Mao Zedong criticized the system of "one-man leadership", which was replaced in China by a system of the director and vice-directors of a factory assuming responsibility for different kinds of work under the leadership of the Party committee. However, in many cases the Party committee often took everything into its own hands and so weakened the powers which should normally be exercised by the director, the chief engineer

and the treasurer. The administrative offices in many enterprises have failed to establish a system of personal responsibility, resulting in poor efficiency and serious bureaucracy. This is incompatible with the requirements of modernization. From now on, the Party committee should not exercise direct control over production and business operations. Its task is to ensure the implementation of the Party's policies and guidelines and carry out political and ideological work, while production and business operations should be left to the factory director, the chief engineer and the treasurer. An enterprise should institute a strict system of personal responsibility, conduct regular check-ups and remove any cadre who is incompetent or fails to fulfil his duties. For this purpose, it is necessary to strengthen democratic management in enterprises and government institutions, establish and perfect the system of the workers' congress and gradually introduce elections of leaders at various levels under the guidance of higher authorities so that the workers may enjoy the right to supervise their leaders. The workers' congress should deliberate on, and supervise the conducting of, the enterprise's major activities (such as major decision-making, the apportioning and utilization of the retained funds, the reform of its rules and regulations and welfare service for the workers). The initiation of democratic management, together with the promotion, among the workers, of the sense of being masters of the country, is an extremely important step in the reform of the system of enterprise management. Without democratic management, the many measures adopted for such reform will not work or may even bring bad results.

Since the Third Plenary Session of the Party's Eleventh Central Committee, we have conducted the reform of the management system in state enterprises by enlarging their decision-making power and introducing the economic responsibility system. Much has been accomplished in this respect. But the reform is far from being completed. We should adopt a positive attitude, further review our experience and advance steadily so as to gradually work out a specific enterprise management system which is suited to China's conditions, ensures the unified leadership of the state and can bring into full play the initiative of the enterprises and their workers.



### **3. REFORMING THE ORGANIZATIONAL STRUCTURE OF THE NATIONAL ECONOMY**

A more important task related to the reform of the economic management system is to reform the whole organizational structure of the national economy, to change the irrational relations now existing between the different departments and regions. In China, there are now hundreds of thousands of state enterprises specializing in manufacture, communications and transportation, agriculture and commerce, etc. It is obviously impossible to place all of them under the direct control of the Central People's Government on behalf of the whole nation. It is, therefore, imperative to establish a system of management at different levels, with some enterprises controlled by the Central Government and others by the local government. In the former case, it is impractical for the State Council to control all the related enterprises. The State Council must have under it a number of administrative departments (the Ministry of Railways, the Ministry of Communications, the Ministry of Agriculture, Animal Husbandry and Fishery, the Ministry of Commerce, several ministries of industry, etc.), each to take charge of the work in a specific field. The advantage of this system lies in that it allows for unified national planning for every industry or trade, makes its development suit the needs of the state and ensures its rational geographical distribution. Nonetheless, such a system of vertical management by the central ministries suffers from a serious defect in that it often cuts off the horizontal links between the different trades and hinders coordinated production and the comprehensive use of resources. Thus, within the same city, each economic department has its own independent production system and each factory, large or small, tends to be all-inclusive without co-operation with others in specialized productive activities. Consequently, production facilities cannot be jointly utilized and many production projects are repeated, causing enormous waste. The problem can be solved by making the local government (mainly governments of big and medium-sized cities) exercise unified horizontal management over the local economies. As it stands now, this system of management is effective in bringing out the production potentials of enterprises

and raising economic efficiency. But if unified local management does not come under the unified planning of the central or provincial economic departments that help co-ordinate the economic operations of the various regions, there will still be possible overlapping construction between regions, likewise causing waste. Moreover, each region may close itself off and all will invoke economic blockade on others in order to develop its own backward enterprises. The various economic departments at the central or provincial level are, therefore, required to play their parts in co-ordinating the economic activities under their respective charge. The question of how to handle the relationship between vertical and horizontal management merits careful study in the reform of the management system of the national economy.

What is the real trouble? It lies mainly in the contradiction between the system of administrative control and the objective requirements of economic development. The main feature of the old system of economic management in China is management by administrative set-ups, administrative gradations and administrative regions. Such an artificial division of economic management along administrative lines does not conform to the objective laws of economic movement and is therefore unfavourable to the division of labour and co-ordination among different industries and enterprises. The development of large-scale socialized production would mean a more elaborate division of labour in production. To meet the needs arising from the division of labour, the central and provincial governments have set up more and more ministries and bureaus. As none of the economic operations of the enterprises can be conducted in an isolated way, each has to be authorized by the many departments concerned, often creating several months' paper work. Sometimes a problem remains unsolved after several months. To avoid all these troubles, enterprises often stick to their old ways and act mechanically on orders from above. Although some enterprises have been placed under the local authorities, many problems still have to be referred to the higher levels. In 1970, many big enterprises administered directly by the central ministries were placed under local governments. But the supply of materials to these enterprises, their production and the marketing of their products were still controlled by the ministries. With one

more "boss", these enterprises only found things more difficult. Some came up against even greater difficulties because they were put under a municipal government within a province and therefore had to obey three "bosses"—the central ministry, the provincial authorities and the municipal authorities. Many factories had originally supplied their products to the whole country. Some were put under a local administration and their production was adapted to local needs, resulting in a shortage of their former products. Originally a few factories had produced certain types of goods for the whole country. After decentralization, each province had to build factories producing such goods, creating much waste. Some areas, counties in particular, set up factories merely for their own interests without considering the supply of raw materials and fuels.

The controversy over whether the economy should be managed along the vertical lines of division between the central ministries or along the horizontal lines of division between localities will not lead to a fundamental solution of the problem. Reform must centre, under unified planning, on expanding the power of the enterprises and that of specialized or joint corporations, which will take over economic management from administrative organs. This will bring a complete change to the current system of economic management in China.

To meet the requirements of large-scale socialized production and the resultant specialization and co-ordination, many enterprises in capitalist countries have merged with one another in the process of competition to form specialized or joint corporations, which extend their operations beyond the limits of their respective industries, regions or nations. Although our country has a different economic system, we are confronted with the same objective requirements arising from large-scale socialized production. We also find it necessary to organize various specialized corporations, such as motor vehicle corporations and shipping corporations, to combine many medium-sized and small plants for streamlined production. We may also set up joint corporations on a still larger scale. For example, an iron and steel corporation may simultaneously conduct mining, coking, iron-smelting, steel-making and steel-rolling and may also operate chemical and building material plants through a multi-purpose utilization of its resources. The

equipment it needs may be made in its own plants or by other heavy machinery plants and may be imported if necessary. Corporations like this should set up agencies for the procurement of raw and processed materials and fuels, sales departments and research and designing institutes. All these establishments are placed under unified management, but each should conduct its own business accounting. A joint corporation has the right to decide on its economic operations through periodic consultations with the establishments under its management without having to apply for authorization from the higher administrative organs. Some ministries have set up specialized or joint corporations without cutting down the power of their specialized bureaus. The result is an overlapping of establishments plus lower efficiency. To straighten things out, it is therefore necessary to establish specialized or joint corporations according to the actual needs of economic development, pay attention to economic rationality and efficiency and avoid specialization for specialization's sake.

Specialization and co-ordination should be introduced not only within industry, but also between industry, agriculture and commerce. For example, the Yee Tsung Tobacco Co. Ltd. was a cigarette manufacturer established by British capital in old China which built several tobacco-growing bases to get the quality raw materials it needed. We may use the same method. Textile mills, especially those using silk, wool and linen, should concern themselves with the production and purchase of silkworm cocoons, wool and bast fibre and then try out streamlined production based on specialization and co-ordination. Factories producing export commodities may also form joint corporations with both raw material suppliers and exporters. The present lines of division between raw material producers, manufacturers and sellers do not help to improve the quality of products and increase their variety to meet market needs, but merely raise the cost of production. A change should be effected step by step.

There has always been a strict division between China's industry and commerce. As commercial agencies have to both purchase and try to sell everything produced, production often does not suit demand. Since the Third Plenary Session of the Party's Eleventh Central Committee, the central government has authorized com-

mercial agencies to purchase goods on a selective basis, but this has created new contradictions between industry and commerce. To reduce their stocks, commercial agencies refuse to purchase many products in demand while forbidding the producers to sell them by themselves. This forced down light industrial production in many areas. Selective purchases by commercial agencies should go hand in hand with the marketing of goods by their producers. Some factories and industries set up their own marketing agencies to sell goods which the commercial agencies do not want to purchase. The marketing agencies set up by factories may also handle the repairs of certain types of goods for customers. New products should generally be sold by the producers so that they may research market needs and improve quality. In foreign trade, we should perhaps change the practice of trade companies handling all transactions with businessmen from abroad, with whom the producers have no direct contact. The producers should take part in trade talks and in the conclusion of contracts. They should work jointly with the foreign trade companies and share with them the responsibility for fulfilling the contracts. Some producers should be authorized to establish direct co-operation with foreign businessmen and undertake jobs like the processing of imported materials. Industries and specialized corporations producing large quantities of export commodities should be permitted to set up their own import and export companies, which would operate under the guidance of the foreign-trade authorities. To avoid self-competition in the international market, the foreign-trade authorities should strengthen guidance to ensure unified tactics, but they should not monopolize all the import and export business conducted by various institutions.

On the basis of the development of economic co-ordination and joint economic corporations, the reform of the organizational structure of the national economy should eventually be directed towards the combination of vertical management by the central departments with horizontal management by the local authorities. The method is, in accordance with the needs of socialized large-scale production, to form vertically and horizontally connected economic zones which are centred on large cities and widened to embrace small and medium-sized cities; such networks should

transcend boundaries of the different industries, trades and regions. For example, economic co-ordination may be established in the Changjiang River Delta area with Shanghai as centre, in the Zhujiang River Delta area with Guangzhou as centre, and in the southwest China with Chongqing as centre. Other large and medium-sized cities may also establish economic co-ordination with the surrounding counties. Such regional economic co-ordination does not mean administrative division and is, therefore, different from the six former co-ordination zones. As a form of administrative division, those zones severed the economic relations between the different regions. For example, under that system, the three neighbouring provinces of Hebei, Shandong and Henan were brought into the north China zone, the east China zone and the central China zone, respectively. Such practice should not be renewed. The networks just described actually existed in old China and are found in the capitalist countries. To develop socialized large-scale production, a socialist country should also establish such networks linking the different industries, trades and regions. They can exist side by side with the current administrative divisions, the former being economic organizations and the latter administrative organizations. An administrative organization should guide, assist or supervise the operations of an economic organization but should not directly participate in its management.

As a country with a territory of 9.6 million square kilometres and a population of one billion, China has varying natural conditions and the level of its economic development differs from region to region. Each region should be encouraged to take advantage of its own favourable conditions rather than establish a separate and comprehensive economic system of its own, as was done in the past. Take Shanghai for an example. It has the advantage of being the most developed region of the processing industry in China, but it suffers from a lack of raw materials and fuels and therefore cannot function in isolation from the other regions. In contrast, most regions in the northwest and the southwest and in Inner Mongolia and Heilongjiang enjoy abundant raw materials and other favourable conditions for boosting their production; but local industrial production remains relatively backward. In the past, because the prices of processed products were high and those of

farm products, raw materials and fuels low, many industrially backward regions in interior China were reluctant to make use of their advantages to increase production of farm products and raw materials but tended to engage in the processing of these products and materials and establish independent economic systems of their own. If this became a universal practice, the imbalance between the processing industry and agriculture and raw materials production would become more and more serious. On the one hand, the big industrial cities would face difficulties in further developing their processing industry for lack of raw materials; on the other, the industrially backward regions would find it hard to develop their industries for want of funds and technology and, furthermore, it would be very difficult for them to compete with the industrially advanced regions. To meet the demand of people's livelihood, the industrially backward regions need to develop limited light industry within their power, but they should not contend with the big industrial cities for raw materials. With the assistance of the big industrial cities, they should strive to develop the production of raw materials and the rough processing of such materials so as to meet the demand of those cities. In order to encourage the industrially backward regions to increase production of raw materials, the state should gradually raise the prices of some farm products, raw materials and fuels so that these regions can earn more by the increased export of such products and materials.

To develop the advantages of each region, it is necessary to encourage the industrially advanced ones to invest in the backward ones and to establish co-ordination and joint ventures between the different regions. The practice of each making investment and going about construction only on its own territory must be changed. In some regions, such as Shanghai, over-concentration of industry has made it necessary to bring in foreign advanced technology for technical innovations and product upgrading and to strive to export their products. In addition, they should invest in industrially backward regions in other parts of the country to help develop production there. Capital funds, machinery and equipment and technical personnel can be brought to these sparsely-populated and richly-endowed regions to develop production of

raw materials and the rough processing of such materials and thus help ease the shortage of raw materials experienced by the advanced regions. These latter regions can also help improve the backward local industries in the former, or they can even move out that part of their industry which requires no high technology so as to thin out their crowded industry and concentrate on high-tech products that cannot yet be developed in interior China. This will be a most effective way to reduce the regional differences. In the United States, balanced economic development was gradually achieved by having the 13 eastern states make investment in the middle and western parts of the country. Of course, the investment by the advanced regions must not and will not be like the plundering of colonies by the imperialist countries. Instead, such investment should be based on the socialist principle of mutual assistance, that is, of the advanced regions assisting the backward ones in an effort for common development. The former regions may also benefit from such regional co-ordination, though it is the latter regions that will get more benefit. If Shanghai and Qinghai each restrict their investment to their own territories, the former will soon run out of space for further development while the latter will probably remain economically backward even by the end of this century. The backward regions cannot hope to rely solely on the limited investment by the central government. Furthermore, such investment can only be in the form of funds and machinery and equipment, and it will not be possible for the central government to send large numbers of technical personnel to assist them in their construction. At present, when many capitalist countries are making huge investments in foreign countries while China is among those which receive foreign investment, why should we not encourage the coastal industrial cities to invest in the interior areas of the country?

The reform of the organizational structure of the national economy also involves doing away with the practice of placing the enterprises under the direct management of Party committees and governments at various levels. The Party committee should focus on political leadership, which means supervising enterprises in the implementation of state plans and policies, as well as on political-ideological education among workers and, in particular, among



Party members. Apart from providing political leadership as their chief task, the governments at various levels should do such work as municipal construction, improvement in local transportation facilities, building of water conservancy works, development of cultural and educational undertakings, running of public welfare services, expansion of commercial and service networks and promotion of recreational and sports facilities so as to pave the way for the development of industry, agriculture and other economic activities. Enterprises and joint organizations (corporations) should be made relatively independent economic entities and should have a specific measure of right to decide on operation and management, on condition that they follow state plans, policies and decrees. Competition should be encouraged between enterprises, some of which may go out of existence in the progress. As for the extremely backward enterprises, they should close down, suspend operation, merge with others or shift to other lines of production. We should encourage enterprises to form, of their own accord, regional or trans-regional partnerships, tradewide partnerships or partnerships transcending the boundaries of trades. But enterprises which decide otherwise may continue to operate independently. Where necessary, guilds may be set up within trades to coordinate the productive activities of various enterprises and overcome difficulties through mutual assistance. Canteens, dormitories, nurseries and kindergartens should be gradually detached from enterprises or government organizations and then placed under public management. Since it is irrational for enterprises to pay for the relief funds for the unemployed and retirement pensions, these expenses may be left to the responsibility of the local governments, which can use for such purposes part of the income tax and other local taxes to be paid by enterprises. Only by so doing can an enterprise concentrate on its economic activities, really operate as an independent unit of business accounting and thus greatly raise its economic efficiency.

From now on, the central ministries and the provincial departments concerned should, as far as possible, refrain from direct enterprise management. Except for a few of special importance, most of the subordinate enterprises may be turned over to management by the authorities of the big and medium-sized cities.

Railway, civil aviation, post and telecommunications and certain ordnance industries should of course remain under the unified management of the central government. The main task of the business departments at various levels lies in making unified plans and technology policies for their subordinate enterprises, supervising the implementation of state plans, co-ordinating production and construction in the various regions and helping them solve problems in production and commodity circulation. Because these business departments are no longer responsible for concrete business matters, their administrative set-ups may be streamlined and their personnel drastically reduced. Thus, as they are required to provide better guidance, they should try to improve their art of leadership by making good use of economic means.

Planning departments at various levels should formulate long-term and annual plans for economic and social development, and they should do a good job in overall balancing. In order to make the mandatory plans more applicable, such plans should be worked out on a more scientific basis. As guidance plans are used with regard to many products, the planning departments should keep a close watch on economic trends, take full advantage of the regulatory role of the various economic levers and thus ensure the implementation of the state plans.

The financial authorities and banks are responsible for fund turnover, the money circulation throughout the country. They should check up on and supervise the economic operations of the enterprises, particularly their incomes and expenditures, and ensure the rational distribution of funds among the different regions. The labour and supply departments should study how to rationally use manpower and materials and thus prevent waste.

In short, the various organs of economic administration should work according to objective economic laws and develop more ways to achieve effective economic management. In face of the new circumstances of the modernization drive and the tasks involved, they should study the new problems and adopt measures accordingly. It is wrong to assume that, with the unfolding of the reform, a laissez-faire attitude towards the country's economic operations may be warranted.

#### 4. ECONOMIC READJUSTMENT AND MANAGERIAL REFORM

When the policy of "readjusting, reforming, consolidating and improving" the national economy was set forth after the Third Plenary Session of the Party's Eleventh Central Committee, our primary task was to readjust the proportions between the different departments of the national economy and put the whole economy in order so as to lay a solid foundation for China's socialist modernization. Our next step was to reform the system of economic management so that we can operate the economy according to objective economic laws and create favourable conditions for our country's modernization programme. Readjustment and reform must go hand in hand. Without readjustment we shall not be able to undertake reform with a free hand, while making certain reforms presently necessary will facilitate readjustment.

Over the past few years, the state has greatly readjusted the national economy and slashed the capital construction programme to save more money for improvement in the people's livelihood, thus bringing about a change in the ratio between accumulation and consumption; it has also strived to develop agriculture and light industry and control the growth of heavy industry so as to readjust the relations between the three. Much has been achieved in this respect. Reduction of the capital construction programme has eased the supply of capital goods, especially machinery and equipment, while the rapid development of agriculture and light industry has contributed to the uplift of the people's living standards and to an improvement in the supply of consumer goods. Some of the new industrial products, such as chemical fibres and household electrical appliances, are in such ample supply that they have even exceeded market demand and been sold at reduced prices. In 1979 and 1980, the state budget showed a big deficit due to our failure to reduce the capital construction programme and due to the too rapid increase in the purchasing power of the urban and rural populace. Consequently, currency was overissued, causing a rise in prices. The situation began to show a turn for the better in 1981, when prices became stable again. This has created a favourable condition for a speedy reform of the economic manage-

ment system. In 1982, the situation began to reverse again, but efforts are now being made to redress it speedily.

Apart from what has been discussed previously in the reform of the economic management system, we should attach great importance to reforming our planning system and changing some of the mandatory plans into guidance plans. This is indispensable to the enlargement of the decision-making power of enterprises. As guidance plans involve mainly regulation through the economic levers, it is necessary to change the present price, tax and credit systems so that they can induce enterprises to follow the state plans. At present, because of irrational prices, a lot of expensive and profit-high products have been lying idle in warehouses, while many other products have long been in short supply due to low prices and low profits. If guidance plans are effected before the readjustment of prices, the production orientation of these products will run counter to the state plans and further contribute to the imbalance between supply and demand. Thus price readjustment is essential. Without price readjustment, we will be unable to carry out our guidance plans and will even find it hard to implement some of the mandatory plans because of the influence of the prices. For instance, over the past ten years and more, the rapidly-developed chemical fibres, though very popular with the public at first, have been selling slowly because of high prices. A huge quantity of them is now overstocked. Although mandatory plans were issued to reduce their production, it has been going up because of high prices and high profits. On the other hand, the production plan for cotton cloth has remained unfulfilled because of repeated rises in the purchasing prices of cotton on the one hand and of low prices and profits for cotton cloth on the other. In view of this situation, the Party Central Committee and the State Council have recently decided on a drastic cut in the prices of chemical fibres and an appropriate price lift for cotton cloth. Thus, more sales channels can be opened up for chemical fibres and their production boosted, while the production of cotton cloth will increase. This will help meet the demand of the people better and ensure a successful implementation of the state plans. From now on, we shall adopt similar measures to readjust the prices of some other products in a systematic way so as gradually to bring these prices closer to the values of the commodities concerned.

The margins of increase and decrease in prices should be more or less equal in order to keep general price level stable. As discussed earlier, we can achieve price stability so long as we maintain a basic balance between financial revenue and expenditure and bring under proper control the social purchasing power and the amount of currency in circulation. Along with rational price readjustment, it will be possible for us to ensure a smooth implementation of state plans, to keep a balance between supply and demand and to turn some of the mandatory plans into guidance plans, thus creating more favourable conditions for enlarging the power of enterprises.

Taxation is another important economic lever. For some commodities, supply and demand cannot be regulated solely through price readjustment but need the help of taxation. For instance, a high-price policy for cigarettes and wines will help reduce consumption but will also bring excessive profits for producers of these commodities. Therefore, it is necessary to use high tax rates to reduce their profits and bring down production. In the past, high tax rates for cigarettes and wines in China kept profits low and contributed to a balance between production and sales. In the reform of the financial system over the past few years, however, the power to levy taxes has been delegated to the local governments and cigarette and wine taxes have become part of their revenues. Because of the huge incomes from cigarette taxes, some tobacco growing areas have set up more and more small cigarette factories to produce cheap cigarettes with high-grade tobaccos. As a result, the big cigarette factories in Shanghai and other cities were compelled to cut down on their production for lack of high-grade tobaccos. This has not only reduced state revenue (high-grade cigarettes bring in more profit), but also brought down cigarette prices on account of excessive supply. Because the tax collected from the small cigarette factories under local management is kept by the localities themselves, the tax payer and collector are actually one and the same entity. This is tantamount to tax exemption, which rules out the regulatory role of taxation. A similar situation exists in the production and sales of wines. The problem can be solved by instituting a state monopoly over the production and sales business of cigarettes and wines and having all the taxes on high-tax products directly delivered to the central authorities. This measure will

reinstate the regulatory role of taxation. Moreover, the state should readjust the tax rates for the various products. Tax rates should be raised for high-profit and over-produced products and be lowered or remitted for low-profit and deficient products. This is also an indispensable economic lever that helps in the implementation of the guidance plans. Apart from producer tax, customs duties are an important economic lever for regulating the import and export trade. High duties should be levied on commodities which carry high profits or whose import or export need to be limited, whereas low or no duties should be collected in products which carry low profits or whose import or export need to be promoted. (Some export items may even be exempted from domestic product tax.) The present method of raising or lowering exchange rates in place of customs duties has greatly detracted from foreign exchange control. Appropriate measures should, therefore, be adopted to change this situation step by step.

Bank credit and interest rate make up a third important economic lever. In the capitalist countries, product tax is used to guide the production of various goods while bank interest rates are employed to control or guide investment. Interest rates are lowered when investment should be encouraged and raised when it should be limited. Low interest rates will be provided for trades whose development is to be encouraged and high interest rates for those whose development is to be limited. In China, investment is controlled mainly through state plans, but bank credit may also play a supplementary role. In the past, investment in economic construction and even funds for equipment renewal and technical transformation were provided in the form of state allocations without compensation, causing enormous waste. Since 1979, when the local authorities began to have access to part of their revenues and enterprises were allowed to retain part of their profits, the localities and enterprises have more and more funds at their own disposal, which factor has contributed to an increase in bank deposits. At the same time, there has been a notable rise in the savings deposits of the people. As a result, part of the bank deposits may be used for medium- and short-term loans for launching projects that need small investment but yield quick returns, and especially for the technical transformation of the existing enterprises and their

equipment renewal. To control the scale of the capital construction programme and the orientation of the related investment, the state should include in its plans the amounts and purposes of bank loans for expanded reproduction, leaving a limited amount for manoeuvre by the banks. The banks may provide more loans for trades and enterprises whose development is to be encouraged and less or none for those whose development is not desired, and the interest rates may differ from case to case. The banks may also help regulate the purchase of factory products by extending more loans for purchasing goods in short supply, and less or none for purchasing overstocked goods; in case loans are not repaid on schedule on account of overstock, the interest rates may be raised to prompt the commercial departments to sell the overstocked goods at reduced prices.

Economic readjustment and the remedying of the disproportions in the national economy should be the indispensable prerequisite to the realization of the three reforms (especially price readjustment) discussed above. On the other hand, realization of these reforms helps consolidate the accomplishments in economic readjustment. If prices are not readjusted, production will continue to increase for many overstocked goods while plans to increase production of the short-supply goods will not be fulfilled. As a result, the balance between supply and demand will again be tipped, again causing disproportions in the national economy. Fulfilment of the above reforms will make it possible for us to bring into play the regulatory role of the economic levers and ensure the fulfilment of state plans mainly through economic measures instead of only administrative means. It will also be possible for us to turn some of the mandatory plans into guidance plans while sticking to the essential mandatory plans. In implementing guidance plans, enterprises will have more room to manoeuvre while ensuring the fulfilment of state plans at the same time. Thus state control will not become rigid and flexible measures will not lead to chaos. In this sense, readjustment and reform must supplement each other. Readjustment should be our primary concern when the national economy is thrown into disproportion; after readjustment is fulfilled, reform should be sped up and various flexible measures adopted to enlarge the decision-making power of the localities and enterprises in matters of human, financial and material resources, procurement of materials, produc-

tion and sales so that they can become relatively independent economic entities. This will make it easier to remove the barriers between the various departments and regions and to set up economic partnerships transcending trades and regions.

After the power of the localities and enterprises is enlarged, the state planning departments should strengthen the overall planning and balancing of the national economy while the various specialized departments should enhance their own planning, co-ordinating and supervisory functions. At the same time, it is necessary to have a comprehensive system of economic laws and strengthen the power of the law-enforcement bodies. Economic legislation is essential to the enlargement of enterprise power just as legality is indispensable to the promotion of democracy. Market regulation calls for strengthened market control. In China, however, no sufficient attention has been attached to economic legislation over the past 30-odd years. Only a few economic statutes and a few sets of provisional economic regulations were promulgated in the last couple of years, and economic law courts remain to be widely established. At the inception of New China, private industry and commerce were put under close supervision because a sound structure was established through the system of industrial and commercial administrative bureaus. After the socialist transformation was basically fulfilled, industrial and commercial enterprises were made subordinate to Party and government organs at various levels. Moreover, the industrial and commercial administrative bureaus, the tax bureaus, the price bureaus and the local banks also came under management by the local Party and government organs. It is thus very hard for them to exercise supervision, inspection or control without strict economic legislation and the powerful support of the state. Therefore, we must expedite economic legislation in step with the reform of the economic management system.

What we have accomplished in the readjustment of the national economy makes it possible for us to speed up the reform of the economic management system while upholding the principle that this reform be conducive to the economic readjustment.

Some comrades in the departments in charge of practical work cannot set themselves free from the old ideas and they seem full of misgivings. Our economic workers should have the overall situation



in mind, take a positive approach to the reform of the economic management system and carry it out resolutely and systematically in the interest of China's modernization. On the other hand, our theoreticians should not take an oversimplified view of the reform. The national economy is a highly complicated organism, in which a single change may affect the whole situation. To avoid confusion in the course of the reform, we should give it overall consideration and take all the possible consequences into account. Many reform measures should first be tried out in some regions, cities or enterprises and then applied more and more extensively in the light of the initial experience. Cautious implementation instead of rash wholesale action is the way to avoid detours and dead ends.

## Chapter IX

### SOCIALIST MODERNIZATION OF THE NATIONAL ECONOMY

#### 1. CHINA'S ROAD TO MODERNIZATION

The Third Plenary Session of the Eleventh Central Committee of the Chinese Communist Party, held in December 1978, decided to shift the focus of the work of the whole Party to socialist modernization as of 1979. This was a strategic decision.

Marx and Engels pointed out that socialism must be based on large-scale modern production. Lenin said: "A large-scale machine industry capable of reorganizing agriculture is the only material basis that is possible for socialism."<sup>1</sup> Although agriculture has been collectivized in China, most of the farm work is still being done by hand while modern industry remains underdeveloped. Ours is a socialism that is not fully mature. That was why Mao Zedong put forward in 1956 the task of making China a powerful socialist state. At the Third and Fourth National People's Congresses, Zhou Enlai proposed to modernize agriculture, industry, national defence, science and technology by the end of this century so that China's economy might take its place in the front ranks of the world. This is a tremendous political task history has placed upon our shoulders.

Modernization is specially important to China now because, first of all, China embarked on socialist construction with a very low level of productive forces. After the founding of New China, we carried out land reform in three years and went on to place the

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<sup>1</sup>V. I. Lenin, "Third Congress of the Communist International", *Collected Works*, Progress Publishers, Moscow, 1965, Vol. 32, p. 459.

means of production basically under socialist ownership in the next four to five years. That period witnessed a big expansion of our industry and agriculture and a marked improvement in the life of the people. This fully demonstrated the superiority of the socialist system. In 1958, however, we began making "Left" errors because we lacked experience in socialist economic construction. In particular, serious damages were done to industrial and agricultural production and the socialist relations of production during the ten years of the "Cultural Revolution". We are now some twenty years behind the developed capitalist countries in science and technology and in industry, and forty or fifty years behind them in agriculture. If we do not quickly catch up with the advanced levels in capitalist countries, we shall not be able to prove the superiority of the socialist system to the people of China and the world, nor shall we be able to win ultimate victory over capitalism.

The aim of socialist construction is to satisfy the constantly rising material and cultural requirements of the nation. The livelihood of our workers and peasants improved significantly during the three-year period of rehabilitation and the period of the First Five-Year Plan. In the next two decades, however, the average wages of the workers were hardly raised, while the living standard of the peasants remained about the same except in a few areas where a rapid growth in production enabled people to earn more. The key to improving the people's living standard lies in raising labour productivity, which in turn requires a speedy modernization of industry and agriculture. Until we base our industrial and agricultural production on advanced science and technology and raise labour productivity substantially in both fields, we shall not see any significant rise in the people's living standard, nor an end to the country's poverty and backwardness.

To free China from poverty and backwardness, we have encouraged people to work hard and lead a simple life, and will continue to do so in the years to come. But hard work and a simple life are meant to achieve speedy progress in production and create the material conditions for a rich and happy life. Perpetual poverty is not what we stand for.

Furthermore, the socialist relations of production cannot rest indefinitely on backward productive forces. The level of productive

forces in China, particularly that in agriculture, is extremely low. In order to lay a solid material and technological foundation for the socialist system and create material conditions for transition to communism, we have to shift the focus of the work of the whole Party and the whole country to socialist modernization after the means of production were basically placed under socialist ownership.

In the past two decades we have failed to grasp fully the dialectical relationship between the relations of production and the productive forces under China's specific historical conditions. Forgetting about the state of the productive forces in the country, we were anxious to raise the level of public ownership in the relations of production; we erroneously pictured the current contradiction between the relations of production and the productive forces as one of the former lagging behind the requirements of the growth of the latter. This gave rise to the "communist wind" in the countryside where egalitarianism prevailed and manpower and material resources were transferred arbitrarily in disregard of the collectives to which they belonged. The same line of thinking also accounted for the tendency to effect a premature transition to a higher form of public ownership on the basis of the same low level of productive forces. As a result, changes were made in the relations of production which exceeded the requirements of the growth in productive forces. Practice shows that a hasty change in the relations of production cannot promote but rather retards or even undermines the development of productive forces. Thus the fundamental way to consolidate and develop the socialist relations of production is to develop productive forces and accelerate the modernization of the national economy.

Our understanding of the economic sector under ownership by the whole people was likewise inadequate. It seemed to us that unified management and distribution throughout the country was a necessary feature of ownership by the whole people and that the greater the degree of centralization, the better. We failed to see that the level of productive forces and the scientific and technical level in the state industrial enterprises were not high enough for a complete elimination of the distinctions between them, which had been left over from the old society. To bring into full play the in-

initiative of the central authorities, the local authorities, the enterprises and the individual labourers, we should reform the system of economic management, an important aspect of the relations of production, retain the differences between localities and between enterprises within certain limits, recognize the principle of material interests, and give the localities and particularly enterprises at the grassroots much power to make their own decisions. Mao Zedong pointed out in his 1956 speech, "On the Ten Major Relationships": "It's not right, I'm afraid, to place everything in the hands of the central or the provincial and municipal authorities without leaving the factories any power of their own, any room for independent action, any benefits."<sup>1</sup> Prior to the Third Plenary Session of the Eleventh Central Committee of the Party, however, we did not fully solve this question in thinking or in practice. Remarkable changes began only after the Third Plenary Session.

Finally, a socialist country is, in theory, run by the working people. In practice, we have to create some conditions to realize this ideal. That is to say, we should, on the basis of the modernization of the national economy, greatly raise the educational level and enrich the scientific knowledge of the working people so that they will really be able to manage enterprises, communes and their subdivisions and run affairs of the state. Peasants account for 80 per cent of China's total population. A great majority of them have received little education and lack scientific knowledge. Therefore, it is not easy for them to run the countryside democratically. Used to a patriarchal and even bureaucratic style of work, most of the Chinese peasants have misgivings about supervising their leading cadres. Compared with the peasants, Chinese workers have received more education. But, under the old management system, the leading members of enterprises had little decision-making power and the workers had even less right to manage their factories. To effect democratic management of factories, we should raise the educational and scientific levels of the workers besides reforming the management system. It can thus be seen that, in order to establish democratic management of the

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<sup>1</sup>Mao Zedong, "On the Ten Major Relationships", *Selected Works*, FLP, Beijing, 1977, Vol. V, p. 290.

state, enterprises, communes, production brigades and production teams, the working people must have higher educational and scientific levels, which presuppose and, at the same time, condition the modernization of the national economy.

We started to build socialism on the debris of a semi-colonial, semi-feudal China which lacked a democratic tradition. To accelerate the modernization of the national economy, we have to change not only those aspects of the relations of production which do not conform to the productive forces but also those aspects of the superstructure which do not conform to the economic base. Since we have established the socialist system of the public ownership of the means of production, we must let the working people run the country and give full scope to people's democracy. Only in this way will it be possible to bring the superiority of socialism into full play and create favourable conditions for the speedy modernization of the national economy.

China's modernization must proceed from its realities. As is well known, it is a large country with a quarter of the world's population. Industrial and agricultural production has grown substantially in the past three decades. In terms of total output, China ranks fifth in the world in steel, third in coal, second in grain, third in cotton, and first in manufactured cotton. But in terms of per capita output, its production and national income are much lower than those of the developed capitalist countries and even lower than those of some other developing countries. Since our economic foundation is poor and our people's living standard is low, improving the people's life should have priority in national economic planning. The national economy will not grow fast until the people are adequately fed and clothed and so work with high enthusiasm, making possible a bigger rise in production and, consequently a gradual rise in the rate of accumulation, an expansion of capital construction and the acceleration of the four modernizations. This is an objective law governing China's socialist economic development. A hasty transition to higher forms of public ownership has been proven impossible in China's socialist transformation. Similarly, we must not blindly seek a high rate of accumulation or development in socialist construction by basing our subjective wishes on what is objectively impossible. The objective law mentioned above was not followed in most of the

twenty-one years between 1958 and 1978 during which efforts at capital construction were excessive, retarding the development of the economy in general and of agricultural production in particular, seriously affecting the improvement in the people's life and their enthusiasm at work.

As things now stand, a proper ratio has to be maintained between national accumulation and consumption and between long-term construction and the annual production in agriculture. Since most of the peasants are still not well off, we should devote our attention first to farm production, the collective income and its distribution in the current year and then to short-term construction projects that can be realized in three to five years. When the peasants are better off, they will be in a position to undertake long-term projects. Farmland or water conservancy projects should be based on financial and material resources the state can afford and on labour power the peasants can provide. Machinery should be used wherever possible so that a minimum number of peasants will be recruited for construction work. When they are recruited, they should be paid wages and provided with food grain in accordance with clearly defined regulations. No more projects should be built "on the basis of the resources of the local people with some state subsidies," as the slogan goes, unless a request to this effect is raised by the peasants. The year's production covers not only farming, forestry, animal husbandry and fishing operations but also various side-line occupations. Efforts should be made to develop crop cultivation, aquiculture, livestock raising and the processing of farm and side-line produce. The peasants say that the current year's production is like a current account in a bank, while small-scale projects are comparable to short-term accounts, and large-scale projects to long-term accounts. With their means of livelihood guaranteed from year to year, the peasants will start short-term and long-term projects on their own.

Socialist modernization will be like a building erected on sand if no security is enjoyed by China's 800 million peasants. Agriculture is the foundation of our national economy. No modernization will be possible without a solid foundation in agriculture. Proceeding from China's specific conditions, Mao Zedong set forth the strategic concept of the revolutionary wars in China, namely, building re-

volutionary bases in the countryside and encircling and finally seizing the cities from there. The peasant question remains one of primary importance in socialist modernization, in which priority must be given to agriculture. China's agricultural production developed at a sluggish pace in the two decades before the Third Plenary Session of the Party's Eleventh Central Committee. The people, particularly the peasants, are still leading a hard life. In a country like ours, failure to provide the peasants with a life of security will very likely affect stability and unity across the country.

The fact that China is the most populous nation in the world must also be taken into account in connection with the four modernizations. No modernization has ever been attempted in a country with such a colossal population. We must do well in family planning to bring our population growth under control. Our enterprises and institutions are overstaffed and unwieldy and labour productivity or work efficiency is very low. Modernization and rises in labour productivity will save a huge labour force from among the present army of workers and staff. Once agriculture is modernized, it will need only a few dozen million people at the most instead of the present 300 million if production remains on the same scale. This means more than 200 million people waiting for jobs, which will have to be found in more diversified undertakings and new fields of production. Higher labour productivity without a rational, overall deployment of the labour force will give rise to a serious problem of job placement, which again will hamper modernization.

Is this an insoluble problem? Certainly not. A thorough analysis of China's actual conditions reveals more than one solution.

As mentioned earlier, many new lines of production can be initiated in both urban and rural areas. In rural areas, there is much room for developing a diversified economy and setting up enterprises run by communes, production brigades and production teams. In the cities, people are free to expand the handicraft industries, commerce and service trades as well as short-distance transport, the building trade and other trades on the basis of collective ownership. When the state has mustered enough economic strength, it will organize a large-scale development of the country's vast unexploited territories. The trouble lies in our structure



of economic management which has blocked many channels of developing production by binding the working people hand and foot. The nation's labour force can be properly deployed once people are allowed to do all socially necessary work.

Will all this run counter to the general orientation of modernization? Of course not. It will help secure proper means of livelihood for more than one billion people, which will pave the way for modernization. When everybody creates wealth, all will be contributing to the national accumulation and to the four modernizations. Of course, some guidelines of modernization are involved here. For example, will it be necessary to adopt the latest technology in every sphere of production? In China's socialist modernization, we should continue to develop big, medium-sized and small enterprises simultaneously and employ mechanized, semi-mechanized and manual means at the same time. To lay the basis for our scientific and technological advances, it will be necessary to set up a number of enterprises using the world's latest technology. But it will also be necessary to effect a vigorous expansion of enterprises run by localities, by people's communes and their subdivisions or by urban co-operatives, which assume sole responsibility for their profits or losses and which do not contend with the large industries over raw material and power supply. While purchasing advanced technology from abroad, we should consider whether to aim at the highest or a relatively low degree of automation. The latter will bring the following advantages: (1) less investment and speedier construction; (2) easier mastery by our technical force; and (3) a faster changeover to manufacture on imported models. Though the level of automation is a bit low, it will still be able to raise our labour productivity several times under improved management. This will enable us to accelerate modernization through self-reliance. Since wages in China are comparatively low, Chinese products will remain competitive on the world market even if her labour productivity is a bit lower than that in some other countries. Rising production and technical advances will enable China to raise the level of its modernization.

## 2. MODERNIZING AGRICULTURE

Modernizing agriculture is an important component of China's socialist modernization. Speaking of the growth of productive forces, agricultural production in most of China remains what it was in the highly developed capitalist countries at the beginning of this century. Faster progress has been made in a few regions, but even there the level only comes to what was achieved in those countries in the 1940s. Building socialism and modernizing agriculture on such a basis involve many difficulties. But since agriculture is the foundation of the national economy, failure to change its backwardness at good speed will mean a delay in the modernization of industry. Thus the modernization of agriculture merits special attention.

The development of agriculture depends on correct policies and scientific farming. In recent years, the implementation of a series of the Party's correct economic policies has brought about great changes in rural areas. Of profound significance is the introduction and rapid spread of various forms of the contracted responsibility system with remuneration linked to actual output as well as the emergence of a large number of specialized households. The basic characteristic of this contracted responsibility system is the combination of unified guidance with decentralized management and the bringing into play of both the advantages of the collectives and initiative of the individuals; all this means that the production relations are better suited to the development of productive forces. The contracted responsibility system is a great creation of China's peasants under the leadership of the Party, a new development in China of the Marxist theory on agricultural co-operation. Thanks to the Party's policies, agricultural production has developed in an all-round way in successive years. From 1978 to 1982, the yearly growth rate of total grain output averaged 2.4 per cent; of cotton, 11 per cent; of oil-bearing crops, 25 per cent; and of sugar-bearing crops, 14.8 per cent. The income of the peasants has increased because of the development of agriculture. In the last three years, the average per capita income of the peasants increased by 90 yuan, or 2.2 times that of the average figure of 40 yuan in all the previous 20 years. With rising productivity and developing diversi-

fied economy, productive pursuits in the rural areas are prospering.

Development of agriculture also depends on science and technology. The material conditions for our agricultural production have greatly improved since the founding of the People's Republic. We have constructed large numbers of water conservancy and other land improvement projects, harnessed big rivers with initial success and built 400 million *mu* of farmland that provides high and stable yields. All this has enhanced our capabilities to cope with natural disasters. The output of chemical fertilizers grew from 40,000 tons in 1952 to 13 million tons in 1982. The nation produced over 40,000 tractors besides more than 300,000 walking tractors in 1982, as against less than 10,000 tractors in 1965. We should make good use of these national conditions to speed up the development of agriculture and gradually realize its modernization.

Modernizing agriculture means replacing China's antiquated methods of farming by those of advanced science and technology. Our task at the present stage is to promote scientific farming and the gradual mechanization of agriculture. The Chinese Communist Party grew in the rural areas and our veteran cadres all know something about directing agricultural production. But we are not entirely free from the limitations of a small-scale peasant economy, knowing little about scientific farming and the mechanization of agriculture. Therefore we must encourage a conscientious study of agricultural science and its application to local conditions, lest we give uninformed directions.

Scientific farming calls for the solution of a series of problems, such as the improvement of seed strains, the scientific application of fertilizers, soil improvement and increasing the multiple crop index.

Since the Second World War, agriculturists in many countries have attached foremost importance to the improvement of seed strains, calling it a "seed revolution". Agriculture in China has a history of several thousand years during which many fine strains of seed have been bred. New China has achieved much success in seed improvement. Unfortunately, work in this field was disrupted and many of the scientists and technicians were brutally persecuted during the "Cultural Revolution". It is high time to re-

sume and expand the work. The birth of genetic engineering has opened broad vistas for breeding new strains, promising more impressive results in this field. Apart from promoting scientific research and experiments, we should pay attention to popularizing new strains according to local conditions. Instead of being popularized indiscriminately, the new strains should be adopted on the basis of the climatic and soil conditions in different areas. Seed-breeding centres should be established to preserve pedigree strains, and experimentation stations and seed companies should be set up everywhere in the country to help communes, production brigades and teams change the old tradition of limiting themselves to their own seeds. More new strains should be tried out and popularized in low-yielding areas.

China has rapidly increased its chemical fertilizer production in the past two decades. However, the chemical fertilizers seem to become less and less effective in boosting farm yields. One reason is the decrease in the use of organic manure which should be applied simultaneously with chemical fertilizers to achieve good results. Sole reliance on chemical fertilizers is not fully effective, perhaps even damaging to the soil structure. While extending the use of chemical fertilizers, therefore, we must apply more organic manure, make full use of the natural resources of barnyard manure, green manure and other organic manure and spread the use of methane as a source of both organic manure and fuels in the rural areas. Another problem lies in the overemphasis on nitrogen to the neglect of phosphorus and other necessary elements. Organic manure contains all elements essential for crop growth whereas a chemical fertilizer generally contains one main element which cannot meet the multiple requirements of the crops. Composts containing a variety of elements should be built on the basis of soil and crop conditions. This will naturally call for soil surveys and the rational planning and cultivation of crops suited to local conditions.

Soil improvement is also crucial for raising crop yields. Scientific research institutes should study different ways to improve different kinds of soil, which may be clayish, sandy, acid or alkaline. Soil improvement will increase farm production when it is combined with other measures, such as the application of more organic man-

ure and better irrigation and drainage.

Since China has a large population but a limited amount of arable land, intensive farming has to be adopted in most regions. The multiple crop index has to be increased, and close planting applied rationally. We used to grow three crops in two years in the northern parts of the country and two crops a year in the south. The current practice is to plant two crops a year in the north, and three in the south. This has been an important means of increasing the nation's grain output. But grain output cannot grow as the multiple crop index does. In areas with a short frost-free period, two rice crops do not necessarily yield much more than a single crop, while the costs for growing two crops are much higher and the burden on the labour force is particularly heavy when one crop has to be harvested almost at the same time as the other one is being sown. Peasants in many regions have much to complain about this practice, and the authorities should listen to their opinions on farming according to local conditions. In some regions it may be advisable to concentrate on the semi-late rice crop. In others two rice crops may be grown in half of the fields along with a single crop in the rest, so as to distribute the labour force more evenly, lower the costs and increase the income of the peasants. This is a controversial question which requires further study.

In the mechanization of agriculture, there has been a general tendency to increase the machine-ploughed acreage without considering the actual economic gains. The main purpose of mechanization is to replace living labour with materialized labour, raise the labour productivity of the peasants and use the manpower thus saved for other pursuits, including non-agricultural ones. But investigations show that we have not achieved this purpose. Some of the problems are:

1. Many technical questions remain unsolved. So far the best results have been obtained in the mechanization of irrigation and drainage, which has proved effective in increasing farm yields and the peasants' income. Threshing has been mechanized in some areas, but not everywhere. Rice-transplanters and harvesters, however, are not yet up to standard; we should import advanced technology to improve their quality. People have always been

keenly interested in tractors, taking the tractor-ploughed acreage as the major indicator of mechanization. But there are more mountainous and hilly regions than plains in China, and the farmland in the former regions are too small and scattered to be ploughed by tractors. In particular, tractors do not save much more manpower than oxen in small paddy fields, although they cost much more. Communes, production brigades and teams have been buying tractors mainly for transportation and seldom for field work. They should have bought trucks instead.

2. The equipment is incomplete and its efficiency low. In the first place, there is a lack of tractor-drawn farm implements to go with the tractors. In foreign countries, a tractor serves several purposes and does several jobs at the same time, including ploughing, hoeing, sowing and fertilizing. In China a tractor serves only one or two purposes and does one job at a time, showing a difference of several times in efficiency. Secondly, some of the most labour-consuming jobs are still being done by hand, such as weeding in the dry fields in the north and the "three back-bending jobs" in the southern paddy fields -- rice-transplanting, weeding and harvesting. Thus the tractors have not saved manpower, which remains insufficient. What is the advantage of mechanization if little manpower is saved by machinery?

3. It was the practice in the past to set a deadline for the mechanization of agriculture all over the country regardless of the different natural and economic conditions in different regions. Tractor-ploughing, which may be popularized on the plains, needs much study in the case of the small plots of land in mountainous and hilly regions. Actually ploughing presents no problem in the rice-growing areas south of the Changjiang River on account of their dense population and limited arable land. In these areas, the problem is how to handle the "three back-bending jobs" and short-distance transport, including transport across the fields, which consume much manpower. There are many poor regions, mainly mountainous regions, in northwest and southwest China. The peasants there, who are still poor, are not yet in a position to undertake mechanization. They cannot afford to use machines even if they buy them with bank loans because the electric power and diesel oil to be used and the repairs to be made are all

beyond their financial means. To do economic work, one must know something about business accounting and act in line with economic laws. Mechanization may be started in areas where the conditions are ripe, and should be postponed where they are not. Of course we should strive to create the necessary conditions if they do not exist, but no attempt should be made to rush people into action in an uproar. In 1958, we sustained serious losses by setting up people's communes in an uproar. We would incur bigger losses by pushing the mechanization of agriculture in a similar fashion and setting a deadline for its completion regardless of objective conditions.

4. Mechanization of agriculture in China is made difficult by its terrain and the limited amount of its arable land. Each farmer cultivates an average of 0.33 hectares of land, as against 0.8 hectares in Japan, 60 hectares in the United States and about 40 hectares in Western Europe. Although agricultural collectivization has been completed in this country, a crop field generally comes to only a few hectares on a plain and about one-third of a hectare in a hilly region. The terraced fields in the mountains are even smaller. The smaller the field, the more difficult it becomes to use farm machinery there. Japan has already surpassed the United States in labour productivity in many branches of heavy industry, but not in agriculture, where its labour productivity is several times lower than that in the United States because of its dense population and limited arable land. The farming methods in the United States, it seems to me, are applicable only to some of the sparsely populated regions but not to most places south of the Great Wall. Japan's experience is perhaps more important for the densely populated regions in China.

Another difficulty in mechanizing China's agriculture lies in the fact that our farm machines, chemical fertilizers and insecticides are highly priced while our payment for labour is low. Mechanization means substituting materialized labour for living labour. It becomes economically feasible only when the amount of materialized labour expended is much smaller than the amount of living labour saved. For this reason, even if mechanization in China creates as much productivity as in other countries, they may use 10,000 yuan's worth of materialized labour to replace scores of thousands

of yuan's worth of living labour whereas we may be doing just the opposite. Thus we must carefully work out the budget for our farm mechanization and calculate the economic results. Some comrades say that we should concern ourselves only with the political significance of farm mechanization and may forget about its financial aspects. This is wrong. How can anyone do economic work without considering finances? Who will bear the consequences of a deficit? If we do things in a wasteful way as we did in the past, farm mechanization may result in a financial deficit of tens of billions of yuan a year, which neither the state nor the peasants can afford to make up.

In the process of modernization, it will be necessary to change the structure of our rural economy step by step. Our agriculture is still based on manual, partially self-sufficient production. Modernization will bring tremendous changes to our rural economy, which may be envisaged as follows:

1. Modernization will develop the division of labour within agriculture into specialized production. Mechanization will be difficult if a production team engages in many lines of production and does a bit of everything. A highly developed division of labour and a high rate of utilization of machinery make it possible for industry to carry on uninterrupted production throughout the year. The seasonal nature of agricultural production accounts for a lower rate of utilization of machinery, which can nevertheless be raised by concentration on a few crops. Growing a bit of everything would require the purchase of different kinds of machinery, each of which can only be used for a few days or a couple of weeks in a year. This is obviously uneconomical. Farm mechanization in any country, capitalist or socialist, requires a farm and even a region to concentrate on one or at most two or three crops. The United States, for instance, is divided into crop belts, each devoted to the cultivation of wheat, maize (fodder) or cotton. Specialization increases the utilization rate of farm machinery and promotes the mechanization of each and every operation.

Specialization is necessary for farming as well as forestry, livestock breeding and fishery. Mechanization of agriculture in developed capitalist countries started with farming, in which it started with grain production, and extended to forestry, livestock



breeding, fishery and other fields. This is particularly true of livestock breeding, which has been mechanized through the establishment of factory farms for raising cattle, poultry, pigs, etc. In the past, since China's peasants were engaged in agricultural production, raising pigs and poultry was only their household side-line. Each household could raise no more than a few pigs and a dozen domestic fowls. In recent years, some peasant households, divorced from agricultural production, have come to specialize in pig and poultry raising, each breeding dozens of pigs or a few hundred or even one thousand chickens. Labour efficiency has, in general, increased several fold. Farming, forestry, livestock breeding and fishery are of course interrelated, and this calls for extensive co-operation between crop, forest and cattle farms. Division of labour and co-operation are necessary between the different branches of agriculture as between the various industries.

2. Progress in specialization will convert the first and last few work processes into independent professions in a chain of co-operation. For instance, seeds which are now bred by crop farms will be supplied by seed farms or companies, animal feed will come from feed companies, and mechanized farm implements and chemical fertilizers will be provided by industrial departments or special companies like farm machinery and chemical fertilizer stations. This separates the first few processes of farm production from crop farms. Transportation, processing and other jobs which follow harvesting will be handled by specialized companies, which means the separation of the last few processes from crop farms. More division of labour demands closer co-ordination between the succeeding processes, which form a continuous line of operation.

Such a fine division of labour promotes the mechanization of every link in farm production and raises the scientific and technological level in seed improvement, the preparation of feed and compost, etc. In Chinese farming, the auxiliary processes, i.e., the first and last few processes, are consuming more manpower than the main ones. It will be difficult to raise labour productivity without mechanizing the former through a scientific division of labour.

3. Specialization and co-operation are a unity of opposites and are interdependent. Modernization of agriculture requires co-

operation between different farms and between industry and agriculture and even the integration of the two. History has seen several stages of agricultural-industrial co-operation. The handicraft industry separated itself from agriculture in slave and feudal societies. At first the former was an appendage of the latter and the two were combined in the family. As the old saying goes, "The man tills the land, the woman weaves cloth." Then the handicraft industry acquired independence in the form of handicraft shops, but it remained in a subordinate position in the rural areas. Handicraft manufacture developed extensively in capitalist society. After the emergence of large-scale machine production many industrial cities emerged and industry gradually overwhelmed agriculture and forced the latter into a subordinate position. Mechanization of agriculture and the rise of factory farms will further consolidate industry's leading position. Of course, this will not lessen the importance of agriculture, which will remain the main source of food and provide much of the raw materials for light industry.

### 3. MODERNIZING INDUSTRY

Modernizing the national economy means developing industry, agriculture and national defence on the basis of advanced science and technology. Science and technology in old China lagged some fifty years behind the level in developed capitalist countries. The distance was shortened in the seventeen years after the founding of New China, but scientific research was disrupted and no progress was made in the ten years of the "Cultural Revolution". There is a serious shortage of scientists and technicians because they have always been few in China and young people have not been able to pursue their studies for at least ten years. This is a big obstacle to the four modernizations. The industries built in the 1950s were technically advanced at the time. But the advanced industrial countries have changed their technology several times in the past two decades while we have made little progress, widening our gap with those countries. We cannot move into the front ranks of the world in industry, agriculture and national defence by the end of the century unless we make a big effort to catch up.

Can we catch up with and surpass the developed capitalist countries? World history provides many examples of latecomers surpassing old-timers. The United States and Germany learned from Britain and went far ahead of it in less than fifty years. After the Second World War, Japan and West Germany recovered with U.S. aid, but in twenty years both caught up with and even surpassed the United States in many fields. The Chinese people are intelligent and hard-working, and China has laid a fairly good basis in heavy industry and science and technology. Modernization can be realized if we solve the following questions:

1. The structure of industrial economy and the industrial product mix should be reformed. In China, the construction of modern industry began earlier than the agricultural technology transformation. Our industrial production has been socialized, and there are already co-operation and division of labour between the different branches of industry. However, the level of industrial modernization has risen steadily abroad over the postwar decades, bringing changes to the economic structure. The present structure of our industrial economy conforms to the conditions in the 1950s and not to the current level of modernization. Thus it has to be reformed for the purpose of catching up with and surpassing advanced world standards. The following questions are involved in the reform:

- (1) Co-operation should be developed between specialized units in place of the present structure under which the enterprises tend to be "large and all-inclusive" or "small but all-inclusive" ones. In industrially advanced countries, complicated machinery and equipment are produced jointly by a number of mills. The spare parts and accessories are often made in many mills, which may be located in different countries, and are assembled and tested in one of them. The auxiliary services preceding or following the production process are provided by specialized companies, which may supply the raw and semi-finished materials, repair the machinery and equipment, sell the finished products, or cater to the daily needs of the workers and staff. Closer co-operation between specialized producers means higher labour productivity, better quality and lower production costs.

The factories and mills built in China since the 1950s show a low

efficiency because they are mostly "big and all-inclusive" or "small but all-inclusive" ones. China has several ministries of machine-building and a great number of machine-building plants, which have enormous potential. But every big or medium-sized plant operates a large repair shop to make its parts and spare parts, resulting in much waste. Specialization and co-operation in China should be much easier than in a capitalist country because our means of production are under socialist public ownership and nationwide economic co-operation can be arranged through state planning. But the conventional practice of putting each industry under the exclusive control of one ministry as well as the ways of handling plans, supplies, labour forces, taxes, and prices have all hindered co-operation between specialized producers.

The same is true of the supply of raw and semi-finished materials and other capital goods. In developed capitalist countries, they are handled by specialized companies. In China, they are distributed by the allocation authorities and the procurement and sales departments of the industrial ministries through administrative channels. Conferences on the allocation of supplies are held every year and plans for their distribution are submitted for approval at various levels. But all this resulted in purchasing agents hunting for goods everywhere. While capital goods are overstocked in warehouses, they are unavailable to those who badly need them.

The service trades are highly developed in many capitalist countries where questions like housing and food for the workers and staff are solved through social channels. In China, these questions have to be solved by the enterprises or by the workers and staff themselves. Factory leaders have to spend a lot of time looking after the livelihood of the workers and staff, who are nevertheless unable to devote all their energy to work because of difficulties in daily life.

What we should do is to operate the economy through various enterprises rather than through so many administrative organs. One company may specialize in a single product, or a joint company may turn out several products. Industrial, agricultural and commercial enterprises may also form complexes. All this will promote co-operation on the basis of specialization.

(2) Industrial modernization also involves the question of a rational distribution to industries. In capitalist countries factories and mills are concentrated in a few large industrial areas, the big cities are overcrowded, and there is a wide gap between the rich and poor areas. China's industries used to be concentrated along the coast, particularly in some large cities. Dozens of new industrial areas have been built in the interior areas since the founding of New China, but there still remains a fairly big gap between the rich and poor areas. This question merits special attention in our industrial construction. Our aim is to build industry with greater, faster, better and more economical results. From a short-term point of view, building factories in big cities and old industrial regions requires less investment and brings quicker returns. From a long-term point of view, however, this will lead to an increasingly irrational distribution of industry and population. Thus in our long-range industrial planning, we should systematically provide for the building of new industrial areas in the interior and the establishment of most small factories in medium-sized and small cities and in rural areas. Factories like those for the processing of farm produce have closer ties with agriculture than with other branches of industry. They should develop in the direction of agricultural-industrial integration and can be run by counties or communes. This makes it necessary to expand transportation facilities in the interior, build up small towns there, and provide housing, food and other consumer goods for people in these new industrialized areas so that they can enjoy a life of security instead of constantly looking for jobs elsewhere. Some of the young men and women in the larger cities may also be willing to work there.

2. Technical innovations should be introduced continuously in all fields. While setting up advanced enterprises, the existing technology and equipment should be transformed and renewed. At the same time we should adopt new technologies and try out new products. Modern science and technology are making advances every day. Any advanced factory will become a backward one in five or ten years if it stops improving its technology. In capitalist countries, people are studying the changing market needs and making forecasts for at least ten or twenty years. Because of our conservatism and self-complacency over the years, many of our products which once

led the international market are no longer popular. Things like this must not be allowed to continue.

The backward scientific and technical level in many of our state factories has to do with the system of economic management, which now stands as an obstacle to scientific and technical progress. State factories should steadily renew their technology and equipment and try out new products. But under the present structure of economic management, an enterprise has no money to do so. To renew its equipment, it must submit a plan to the higher authorities for appropriations. It also hands over most of its depreciation fund to the higher authorities and has no power to use it. The overhaul fund allocated by the state can only be used to put the equipment in its original shape, while any scheme for technical innovation must be reported to the higher authorities for approval as a capital construction project. Many enterprises requested state appropriations to the sum of a few hundred thousand or a few million yuan for making technical innovations which might bring them several times more than the investment in a year or two. More often than not these requests were shelved because they were not "key projects". Many enterprises incurred an annual deficit of several or even ten million yuan, which was covered by state subsidies. If these enterprises were granted a similar amount for technical innovation, they would become profitable businesses. But such requests were often turned down. If we do not change such a system of economic management, we will never reach the world's advanced levels. An enterprise must have its own funds, including a depreciation fund, as well as retain part of its profits for tapping its potential through technical change and should be able to get bank loans for the same purpose. It should change to better technology during overhauls or renewal of its equipment. The irrational classification of technical innovation as capital construction subject to approval by higher authorities must be discontinued. State investments in capital construction should mostly be used for the reconstruction and expansion of existing factories. The present method of using two-thirds of them on new factories and only one-third on existing ones should be reversed. Industrial modernization must be carried out from our present basis under the policy of "walking on two legs", that is, building new factories while impro-

ving the old ones. The latter is the most effective method of achieving a faster industrial growth.

All factories must continuously improve the quality of their products and try out new ones. But since trial-production has to be approved and the expenses allocated by higher authorities, the enterprises are virtually deprived of the right to try out anything on their own. Many products have remained the same for two decades and have lost their competitiveness. As a result, a number of the best-selling goods on the international market have become unsalable. All factories must be given the financial means to improve quality and increase variety. In capitalist countries, manufacturers turn out an endless stream of new products to suit the changing market demand. China's export commodities are monopolized by the foreign-trade departments. Producers make goods behind closed doors without seeing the market abroad or knowing the changing demand there. How can such exports be expected to compete with foreign goods on the world market? Chinese textiles were once highly competitive internationally. But as the textile mills have no power to import high-grade dyestuffs or sophisticated finishing equipment, they can hardly increase exports and are compelled to export raw silk or blank cloth, leaving much of the profit to foreign capitalists. This state of affairs must not be allowed to continue.

The articles of daily use sold on the home market have hardly improved in the past two decades, and some have even worsened. The increases in variety or design are few. In addition to the monopoly purchase and marketing of products by state commerce and the producers' lack of funds to try out new goods, this is also due to excessive control over the prices of new products. These products are usually turned out in small quantities and at high costs. The producers should be allowed to sell them at high prices and cover any possible loss through profits made on old products. But many new products have to be delivered to state commercial agencies for sale at low prices and the losses are covered by the financial departments, which again involves the question of approval by the higher authorities. This practice, claimed to be an encouragement for the trial-production for new goods, actually hampers it. Bearing in mind consumers' psychological preference for new products, manufacturers in capitalist countries offer them new goods at high

prices every year, mark down the prices after starting mass production, and then bring out newer products. When their living standard rises, our labouring masses will not content themselves with old products that have remained the same for one or two decades. We should make good use of the role of the market and the law of value to encourage the production of new goods and see to it that a great many top-quality, famous-brand products are turned out to meet market demand at home and abroad. At the same time, we should promote the sale of out-of-date products by lowering their prices, instead of keeping them too long in stock.

3. We should reorganize the ranks of our scientists and technicians, bring their talent and wisdom into full play, and raise the level of our science and technology. Large numbers of scientists and technicians, particularly the older specialists, were persecuted by the Lin Biao and Jiang Qing counter-revolutionary cliques. We must not only reinstate them politically but also make proper arrangements for their work and livelihood and provide necessary facilities for their work. Many scientists and technicians have been assigned jobs which do not fit what they learned. We should make a nationwide survey of our scientific and technical personnel and help the professionals return to work in their own fields. When they wish to be transferred to the institutions or enterprises which can use their special knowledge their original work units should be co-operative. A waste of the scientific and technical force is even more serious than that of financial and material resources.

New scientists and technicians have to be trained in earnest. Since we lack the resources to set up a great number of universities and colleges, scientists and technicians have to be trained by a policy of "walking on two legs", i.e., expanding both regular and spare-time education. Special courses should be conducted for college graduates of the "Cultural Revolution" years to make up or advance their studies. Bigger factories should run spare-time colleges and select young workers and staff members for full-time or part-time study. More T.V. schools\* and correspondence schools should be set up so that all young people wishing to study may

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\*T.V. schools are those which teach courses on television. Students take exams and receive diplomas just as other college graduates. — *Trans.*



have a chance to do so.

Examinations should be given to industrial and office workers and their performances reviewed at regular intervals so that some may be promoted or transferred to more important jobs. Young men and women who have acquired specialized knowledge through spare-time independent study should be promoted in time and given chances for further studies.

Scientific research institutes, universities and colleges should provide consultancy services to industrial and mining enterprises and rural people's communes to aid in solving practical problems regarding technology and breaking deadlocks in academic research. To this end, the leading organs should sponsor joint research plans and co-operation among different units to avoid any duplication of effort. Academic symposiums should be held regularly and the results of research exchanged. The policy of "letting a hundred schools of thought contend" should be upheld. Truth can only be tested through practice, and no rash conclusions should be drawn by anyone in authority.

4. The advanced technology in foreign countries should be imported and utilized under the policy of relying mainly on our own efforts while seeking assistance from abroad.

All countries must utilize the advanced technology produced abroad in their modernization of industry and agriculture. This is an essential means of modernization. The United States learned from the advanced technology of Britain and other countries and developed its own on that basis, enabling itself to outstrip Britain and lead the world in a few decades. Japan learned mainly from the United States and also from other countries and was good at creation. Thus it has been able to catch up with the United States in the short span of twenty years. To accelerate the four modernizations, we should import advanced foreign technology on a selective basis while upholding independence and self-reliance. We must not cut ourselves off from the outside world and remain complacent and conservative.

Mao Zedong all along stood for learning from the advanced science and technology of other countries on the basis of self-reliance. In "On the Ten Major Relationships", he said: "Our policy is to learn from the strong points of all nations and all countries",

adding, “. . . In the natural sciences we are rather backward, and here we should make a special effort to learn from foreign countries.”<sup>1</sup> While stressing self-reliance, he was never against foreign aid. It was with Soviet aid that we laid the initial basis for industrialization in the period of the First Five-Year Plan. Later Mao Zedong and Zhou Enlai approved the plan to import several dozen sets of foreign equipment, particularly chemical-fertilizer and petro-chemical equipment.

After the smashing of the Gang of Four, the Central Committee of the Chinese Communist Party formulated the policy of opening to the outside world and of introducing foreign investments. Thus the purchase of advanced foreign technology, machinery and equipment has developed into the acceptance of foreign loans and then into permission for foreign firms to build factories or establish joint ventures with China on Chinese soil within prescribed limits. As an important measure to accelerate the four modernizations, this will also enhance our capabilities to build the country through self-reliance. To use foreign technology effectively, we should solve the following problems:

(1) While importing advanced technology and equipment, we should consider whether we can handle them technically and managerially. Without full preparation in these respects, we may not be able to ensure the normal operation of the imported equipment and may incur enormous losses. Thus importation must be accompanied by an intensified training of technicians, skilled workers and managers, the formation of a strong leadership in advance, and the dispatch of specialists and skilled workers to the related foreign plants for on-the-spot training. We had no experience in the early years after liberation, but we successfully completed the 156 major projects introduced from the Soviet Union. The conditions we have today are much better. Although we are building on a larger scale and introducing more sophisticated technology, we can overcome our difficulties by taking them into full account and adopting proper measures.

(2) To be able to repay our debts, we must work out an overall

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<sup>1</sup>Mao Zedong, “On the Ten Major Relationships”, *Selected Works*, FLP, Beijing, 1977, Vol. V, pp. 303-304.

plan for the use of foreign investment. Projects must not be launched all at once, and short-term projects should be undertaken simultaneously with long-term ones so that we may use the income from the former to finance the later. While large projects are necessary, they require more investment and a long time to complete, and the credits involved can hardly be repaid in a short time. In addition to energy and transport projects, therefore, priority should be given to the more profitable light industrial enterprises which need less investment and take a shorter time to build. Their products can soon be exported, enabling us to repay our debts. Big projects constructed with foreign investment, such as oil-mining and coal-mining, should be built on the basis of compensatory trade, that is, repayment for foreign investment in the form of exports. We may also build some badly needed projects, such as iron and steel plants, within the limitations of our resources. Even if they do not produce large quantities of exports, they will help us reduce imports and save foreign exchange. In short, we should balance our foreign exchange payments so as to minimize our foreign debts.

(3) It is necessary to handle correctly the relationship between self-reliance and the adoption of advanced foreign technology. By bringing in advanced technology, we do not mean depending on foreign aid but improving our own scientific and technological level and our ability to build the country through self-reliance. Learning from other countries should therefore be combined with our own creative effort. Many factories which imported foreign equipment were interested only in its installation and commissioning but never bothered to study the technology. They sealed the blueprints and did not want to share them with plants and research and designing institutes responsible for the manufacture of similar equipment. As a result, we could not manufacture the equipment several years after importing the foreign models, to say nothing of improving on them. We shall never realize modernization through mere dependence on imported equipment, nor shall we ever catch up with advanced world levels by copying foreign models without making improvements. Since other countries are carrying out continuous technical innovations, we shall always crawl behind them if we keep copying their products as they are.

All factories and mills that import advanced foreign technology and equipment are obliged to work in close co-operation with the units concerned, particularly manufacturers of similar machinery and equipment and their research and designing institutes, make updated studies of advanced technology, and produce and improve upon foreign models.

5. We have to improve management of the enterprises and of the whole economy. Modernized management and technology are the two wheels of the chariot of the four modernizations. Some of our industrial enterprises compare fairly well with their foreign counterparts in equipment, but their efficiency is much lower. We have imported various kinds of advanced equipment, but employ several times more people to handle them. The reason is poor management. Given proper management, our production efficiency will multiply on the same equipment. Advanced technology and equipment cannot play their part without good management. Some people foolishly set politics against economics, professional work and technology, and indulge in empty talk about politics. As a result, some of the leaders of our enterprises know nothing about management or technology. This should be changed completely.

We must review our positive and negative lessons in economic and enterprise management in the past three decades and learn from the managerial experience of other countries. While importing advanced technology, we should also study the related methods of management. Production technology is intertwined with economic management. No advanced production technology can play its role before bureaucracy in management is overcome. In our state-owned factories and mills, the administrative setup is unwieldy, the job responsibilities are not clearly defined, and labour productivity is low. This is out of keeping with modern production. All enterprises that import advanced machinery and equipment should at the same time learn from foreign systems of enterprise management so as to employ less manpower, achieve higher efficiency, improve quality and reduce costs. While learning from foreign managerial methods, we in a socialist country must naturally bring into play the superiority of the socialist system and reject the decadence of capitalism. But we should distinguish the

scientific management of large-scale modern production from capitalist decadence and must not confuse the two. In socialist countries, the labouring people are masters of the country and their initiative and creativeness can be brought into full play. The bureaucratic ways of management in many enterprises are not only at variance with modern production but also run counter to the socialist system. They should be changed without delay.

#### **4. ACHIEVING THE OBJECTIVE OF SOCIALIST MODERNIZATION**

The Twelfth National Congress of the Chinese Communist Party formulated the strategic objective, priorities and steps as well as a series of correct principles and policies for China's economic development in the next two decades. These constitute the economic programme of the country's socialist modernization.

For the two decades between 1980 and the end of this century, China's economic construction will, while steadily working for more and better economic results, aim to quadruple the gross annual value of industrial and agricultural production -- from 710 billion yuan in 1980 to 2,800 billion yuan or so in 2000. This will place China in the front ranks of the countries of the world in terms of gross national product, gross national income and the output of major industrial and agricultural products; it will increase the income of its urban and rural population several times over; the Chinese people will be comparatively well-off both materially and culturally; and China's economic strength and national defence capabilities will grow considerably.

In order to achieve the grand objective described above, the total output value of industry and agriculture should increase at an average rate of 7.2 per cent a year. According to current international standard, this growth rate is very high, but it is attainable in China's historical context. Within the 32 years from 1950 to 1981, the total output value of China's industry and agriculture increased at an average annual rate of 9.2 per cent. The three years of national economic recovery (1950-52) chalked up an especially high growth rate, and the annual growth rate for all the other years averaged 8.1 per cent. Of the said 32-year period, 21 years

saw an annual growth rate of over 7.2 per cent, one year 7.2 per cent, and 10 years below 7.2 per cent. In the years 1961 and 1962 following the "Great Leap Forward", economic growth came down 30 per cent and 10.1 per cent respectively; in the years 1967 and 1968 during the "Cultural Revolution", the increase rate dropped 9.6 per cent and 4.2 per cent respectively. These were two major setbacks. The movement to "criticize Lin Biao and Confucius" in 1974 and the movement to "counter the Right deviationist trend to reverse correct verdicts" in 1976 led to another marked decline. These were two years of lesser setbacks. The average growth rate might have been higher if we had not suffered all the aforesaid setbacks. In the coming two decades, it will be possible to avoid such setbacks, and for the following reasons: First, the Third Plenary Session of the Party's Eleventh Central Committee decided that, beginning with 1979, the focus of work of the Party and the state be shifted from "taking class struggle as the key link" to socialist modernization centring around economic construction. It will be possible to have a political situation of long-term stability and unity needed by economic development, which will never again be adversely affected as it was during the 10 years of domestic turmoil. Second, we will be able to work better according to the objective economic laws. As Deng Xiaoping said in his opening speech at the Twelfth National Congress of the Party:

In comparison with the time of the Eighth Congress, our Party has gained a much deeper understanding of laws governing China's socialist construction, acquired much more experience and become much more conscious and determined in implementing our correct principles.<sup>1</sup>

We can, therefore, avoid the mistakes caused by the "Great Leap Forward", which did great damage to economic construction by going against science and the laws of the economy. In short, so long as we can maintain political stability and unity and really act according to the objective laws, China's economic growth rate in

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<sup>1</sup>*The Twelfth National Congress of the CPC*, FLP, Beijing, 1982, p. 3.

the next 20 years will be sufficient for the realization of our strategic objective.

Some people argue that the rate of economic growth decreases with the increase of the base figure. Now that we have a large base figure, they contend, it will be impossible to keep as high a growth rate as before. This view lacks sufficient grounds both in theory and practice. According to Marx, surplus labour steadily increases along with the development of the productive forces. Production in primitive society developed at a piteously slow pace because there was no surplus labour at the time. Hence it took hundreds of thousands of years to develop from the stone age to the bronze age and then to the iron age. There was a little surplus labour in slave society, and more in feudal society, which witnessed a higher rate of the development of production but, nevertheless, it also took 3,000-4,000 years to reach the age of steam engine.

In capitalist society, surplus labour reaches a bigger and bigger proportion and quite a large amount of accumulation can be used for expanded reproduction; with more surplus labour, more people can engage in scientific and technological pursuits whose rapid development speeds up production growth. The productive forces developed within 200-300 years in capitalist society far exceed those developed within 3,000-4,000 years in slave and feudal societies. In capitalist society, the speed of development of production in the 19th century surpassed that in the 18th century, and the speed of development in the 20th century far surpasses that in the 19th century. Thus it can be seen that what is decisive to the economic growth rate is the development level of science and technology. It is estimated that, if the production technology of the principal section of China's industry can reach the present level of the economically advanced countries by the end of this century, the gross annual output value of our industry and agriculture can be quadrupled or even more. In the next 20 years, we should strive to — and we can — catch up, and surpass in certain aspects, the present level of some economically advanced countries. The above estimate does not include the forthcoming new developments and the breakthroughs in world science and technology in the coming two decades, all of which we can also draw on selectively.

It is said that, with their obviously advanced science and technology and management, the developed capitalist countries have in recent years recorded only an average annual growth rate of 3-4 per cent and a 5-6 per cent rate has been regarded as remarkable. So, how can we possibly surpass them? But we hold that the comparatively low levels of China's science and technology and management indicate our great potential; and that, provided we work fruitfully in the import of the advanced technology of the developed capitalist countries and absorb their scientific managerial expertise, we can catch up and surpass them. The reason for the sluggish development of capitalist countries is overproduction and lack of markets, all caused by the contradictions inherent in the capitalist system. With their large amounts of capital, the most developed capitalist countries are now unable to find outlets for investment; the utilization ratio of their machinery and equipment is only about 70 per cent, and a large number of industrial and office workers, including scientific and technological personnel, are unemployed. If they can make full use of their idle productive forces, their yearly production increase rate can reach 10 per cent or more. The reverse is true of China with its superior socialist system. Instead of over-production, supply of the means of production and consumer goods falls short of demand in our country. Our one billion population provides the biggest market in the world. With the low living standards of our people, we have no market problem at all even when the production of consumer goods rises several fold. So long as the proportions in our national economy are correctly readjusted, we can develop production, expand construction and raise the living standards of the people. There will be a virtuous circle that helps China's economic development.

The Twelfth National Congress of the Party formulated three strategic priorities for China's economic growth in the coming two decades.

The first priority is agriculture. Since the founding of New China, the development of agriculture has been rather rapid. From 1950 to 1981, the total output value of agriculture increased four-fold, showing an average annual increase of 4.4 per cent. Total grain output increased by 2.9 times, showing an average annual increase



of 3.3 per cent. It is an amazing achievement that, utilizing its 1.5 billion *mu* of cultivated land, China has basically solved the problem of feeding and clothing its population of one billion. But we should see that agriculture remains a weak link in our country's economic development. Its slow development, especially with regard to grain production, is an unfavourable factor in the growth of our national economy. Agricultural products have been in short supply because of excess population growth and of the development of urban and industrial construction. In the past three years, China has imported considerable grain to support the readjustment of agriculture and raise the level of food grain consumption by the peasants. It is probable that grain supply will continue to fall short of demand in the near future. Therefore, in developing agriculture, we should firmly implement the policy, "Have a firm grasp on grain production, vigorously develop a diversified economy." For the sake of the steady development of agriculture, we should adhere to the road of socialist collectivization; persist in the long-term policy of public ownership of land and other basic means of production; uphold the long-term implementation, in the collective agricultural economy, of the various forms of the contracted responsibility system with remuneration linked to actual output; pay attention to the comprehensive utilization of agricultural resources; continuously improve the production conditions of agriculture; increase agriculture's capacity to cope with natural calamities; carry out scientific farming; and increase industry's support to agriculture. In short, we should suit agricultural development to the requirements of the development of our national economy as a whole and to the needs of the rising living standards of the people.

The second priority is energy and transport. Energy shortage is a major problem in China's economic development. Whether or not our national economy can develop smoothly, whether or not the Sixth Five-Year Plan can be overfulfilled and whether or not the economic growth rate can be raised steadily in the years ahead -- all this depends to a large extent on the production and conservation of energy. From 1979 to 1981, China's energy production only increased by 0.7 per cent while industrial production as a whole rose by 22.8 per cent. The drop in the growth rate of industrial production over the past few years has been mainly due to

strained energy supply. Both increased production and conservation of energy are of decisive importance to our future effort to ensure an industrial growth rate of 4 per cent and aim for one of 5 per cent. It is estimated that during the Sixth Five-Year Plan, energy production will not grow very fast and that, consequently, industrial development in this period will have to rely on energy conservation. China ranks third in the output of coal and tenth in the output of oil in the world, but waste of energy is enormous in our country. Compared with the developed capitalist countries, China consumes two times more energy in producing the same amount of industrial products, and three times more than Japan, a country well known for saving energy. So there is great potential in energy conservation in China. In order to save energy enormously, we should improve management and replace the existing highly energy-consuming machines and equipment with energy-conserving ones, which will take years of technical transformation. Nowadays, many countries in the world have put great emphasis on energy-saving, so oil consumption has been dropping. In the two decades ahead, if our energy consumption can be lowered to the current level in the developed capitalist countries, our industrial production will increase by a wide margin. It is estimated that, if by 2000 China's energy production is doubled and energy consumption is reduced by at least 50 per cent, industrial production in the next two decades can be quadrupled or more.

Besides lack of energy, China faces a serious problem in transport. Shanxi Province, for instance, regularly has more than 10 million tons of coal waiting to be brought out. The problem will be more serious with increased coal output. In recent years, the handling capacity of harbours has grievously lagged behind the ever-expanding import and export trade. Therefore, in step with rising production and foreign trade, we must hasten the construction of railways and harbours. As a measure to gradually solve the transport problem, we have to tap the great potential navigation capacity of our coastal and inland rivers, which is far from being fully utilized.

Moreover, the development of educational and scientific undertakings must be speeded up to provide the qualified personnel for the modernization programme, whose core is modernization of

science and technology. Production development and better economic efficiency cannot be achieved without high cultural and educational levels for the whole nation and advanced science and technology. Therefore, education and science must be made one of the strategic priorities for economic development in the next two decades. During this period, we should make both primary and secondary education universal and develop universities and colleges to train all kinds of professionals -- from scientific and technical to economic management personnel. In addition, spare-time education in institutions and enterprises should be developed to raise the educational level of workers and other employees and enlarge their scientific and professional knowledge. In big enterprises, young workers with relatively high educational levels can be selected to attend full-time or spare-time colleges and be trained into qualified personnel for their own trades. T.V. colleges, correspondence schools and other educational forms should also be developed extensively to enable more workers to study in their spare time. Institutions and enterprises should provide various conveniences for their employees to engage in independent studies. School education and spare-time education are the "two legs" in the development of educational undertakings. Anyone who, after examinations, has proved to have reached the same educational level as college graduates should be given a diploma and be treated equally with graduates of regular colleges.

The Twelfth National Congress of the Party not only formulated a magnificent objective and strategic priorities for China's economic development in the next two decades, but also mapped out two steps for realizing the said objective.

In order to realize our objective for the next two decades, we must take the following two steps in our strategic planning: in the first decade, aim mainly at laying a solid foundation, accumulating strength and creating the necessary conditions; and in the second, usher in a new period of vigorous economic development. This is a major policy decision taken by the Central Committee after a comprehensive analysis of the present conditions of China's economy and the trend of its growth.<sup>1</sup>

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<sup>1</sup>Hu Yaobang, "Create a New Situation in All Fields of Socialist Modernization", *The Twelfth National Congress of the CPC*, FLP, Beijing, 1982, pp. 22-23.

The reason why we should take two steps is that the growth of the national economy is affected by the following factors: First, it takes a long time to readjust and remedy the disproportions in the national economy and the irrational production mix as well as the irrational enterprise set-up and economic management system, all of which have been in existence for long years. Second, the problem of energy and transport cannot be solved within a short time. Third, due to the insufficient technical personnel and funds, major scientific and technological research projects and the technical transformation of existing enterprises can only be conducted at selected points instead of on an extensive scale. Fourth, both the training of qualified personnel and the improvement of technical and managerial levels will be a fairly long process. Therefore, in the first decade we should devote our main effort to laying a solid overall foundation, achieving better economic efficiency, attaining a specific growth rate and preparing for a more rapid development and the transition to the new period of vigorous economic development in the second decade. Our target for the first five years (or the Sixth Five-Year Plan period) of the first decade is to ensure a 4 per cent growth rate for agriculture and industry and strive for a 5 per cent growth. But the rise in the total output value of agriculture and industry was 4.5 per cent in 1981 and over 7 per cent in 1982. At this speed, the Sixth Five-Year Plan is likely to be overfulfilled. Since we must continue to lay a solid foundation during the next five years, we should not aim for too rapid a rate for industry and agriculture: it can only be a little higher than that in the Sixth FYP. After we have laid a solid foundation, we can work for a relatively higher rate (about 8 per cent) in the 1990s, or even strive for a greater figure in some years of this decade. In this case, the grand objective of quadrupling the gross annual value of industrial and agricultural production will no doubt be achieved, or even possibly surpassed.

According to the decision of the central authorities, the most important task at present is to continue the economic readjustment centred on the control of investment in fixed assets. For years, we pursued excessively high construction targets, unrealistically high accumulation rate and too much investment in fixed assets, leading to lowered economic efficiency and little improve-

ment in the people's living standard. Since 1979, we have decided to cut down fixed assets investment and use the money so saved to improve the people's life. As a result, there has been a remarkable change in the proportions between accumulation and consumption and among agriculture, light industry and heavy industry. Of course, reduction in fixed assets investment will slow down the rate of production growth for a short time. We failed, however, to curtail investment in fixed assets in 1979 and 1980 and consequently the growth rate of industry and agriculture reached 8.5 per cent and 7.2 per cent respectively. In 1981, such investment was reduced with firm measures, lowering the growth rate to 4.5 per cent, which was normal in the course of economic readjustment. After the objective of quadrupling the gross industrial and agricultural output value by the end of the century was put forward by the Party Central Committee in 1982, many comrades, instead of studying the whole strategy for the development of the national economy, once again sought growth rate lopsidedly. Thus there again emerged a trend towards blindly setting production targets and duplicating construction projects, with the result that there was a big increase in extrabudgetary investment in fixed assets. In his report to the Fifth Session of the Fifth National People's Congress in late 1982, Premier Zhao Ziyang put forward four measures, the first of which is that the total amount of fixed assets investment should be brought under strict control to make sure the on-schedule completion of the key construction projects. This is a very timely and important measure, for if we do not turn back from repeating our past mistakes and thus suffer another setback, we can hardly achieve the objective of quadrupling China's total industrial and agricultural output value by the end of this century.

When fixed assets investment is put under firm control, state investment will be for concentrated use in such key projects as energy and transport which produce slow returns. We cannot place too much of our hope of developing production on new enterprises, but only on the consolidation and innovation of the existing ones. We have large numbers of enterprises, but due to backward technology and poor operation and management in most cases, the fixed assets of well over 500 billion yuan can now produce only a total social product of 900 billion yuan, the ratio being 1:1.6, much

smaller than that of 1:2.6 in 1957 and lagging far behind that in the developed capitalist countries. This shows that the economic efficiency of our enterprises is too low. Viewed from another angle, there is a great potential for production increase, only if we launch technical innovation and improve operation and management. Over the past three decades or more, most of the investment was put into the construction of new enterprises and only a little went for technical innovation of the existing enterprises. In recent years, although there has been a marked increase in construction done with the enterprises' own funds, much money has been used to expand their existing production capacity rather than in technical innovation. In the next eight years, much of the investment should be put into technical innovation, into technical transformation of most of the existing enterprises. It is expected that, with consolidation and technical transformation of these enterprises, not only will the quality of their products be improved but they will be able to produce much more. Unless we do a good job in these respects, we will find it very difficult to realize our grand objective.

Consolidation of enterprises has also spurred the growth of production. Some of them have doubled or redoubled production by improving their own management or introducing specialized co-ordination among different units. At present, the leadership of many enterprises is incompetent and slack, causing a series of problems: lax labour discipline, ill management, excessive material consumption, and poor quality of products, which, moreover, are not suited to market demand. All this has severely hindered the development of production. Improving leadership is the key to enterprise consolidation. Another irrationality is enterprise setup under which the different units act as a drag on one another instead of co-ordinating their effort. Changzhou City in Jiangsu Province has achieved a multi-fold increase in its industrial production by readjusting enterprise set-up and implementing specialized co-ordination among the various local enterprises. We can bring similar results on a nationwide scale through overall planning for the whole country and co-ordinating the activities of different enterprises, trades and regions.

In order to do the above-mentioned, especially changing the structural relationship among different enterprises, trades and re-

gions, there must be reform of the current economic management system. First of all, we must extend the decision-making power of the local authorities and the individual enterprises, enhance their sense of responsibility, eliminate the system of unified revenue and expenditure as well as the system of "everybody eating the rice cooked in one big pot", and establish the system of economic responsibility at all levels. The disadvantage of vertical management by the central departments has been that the enterprises of one and the same region cannot co-operate with each other, making it impossible to fully use their production capacity. As a way out, we may experiment with the method of unified management within a specific region, with big and medium-sized cities as centres. However, horizontal management is likely to hinder inter-region co-operation among enterprises of the same trade and may possibly lead to overlapping construction and mutual blockade. So the competent authorities should be responsible for the overall planning of the various trades and for inter-region co-operation, so as to avoid the said disadvantages.

There must be reform of the planning system, which involves the proper implementation of the principle of the leading role of planned economy and the supplementary role of market regulation. After the central authorities put forth this idea, many comrades began to think that it means narrowing the scope of market regulation. Hu Yaobang and Zhao Ziyang pointed out at the Party's Twelfth National Congress and at the Fifth Session of the Fifth National People's Congress, respectively, that, while carrying out management through strict planning over the main body of the national economy, it is necessary to have market regulation for the production and marketing of the numerous kinds of small commodities. The scope of such market regulation should be appropriately expanded in the next few years instead of being narrowed. In management through planning, we should more effectively enforce not only mandatory plans (such as the strict control of the fixed assets investment and the distribution of energy) but also guidance plans which involve regulation mainly through economic levers. For this purpose, we need price readjustment, reform of the tax system and the strengthening of the role of banks. And all these measures will invigorate our economy and achieve the prin-

ciple, "control which is not rigid, and flexibility which does not lead to chaos", thus giving full play to the superiority of socialism.

What has been described above shows that it is a heavy task to achieve the grand objective of quadrupling the gross output value of our country's industry and agriculture before the close of the present century. Economic readjustment is still under way, consolidation and reform have just started and there are many shortcomings in our work. However, we enjoy a great potential for production growth. As long as we overcome our shortcomings and tap the potential, our national economy is likely to develop at a higher speed.



## Chapter X

# CLASS STRUGGLE AND CONTRADICTIONS AMONG THE PEOPLE

### 1. CLASS STRUGGLE IN SOCIALIST SOCIETY

The theory of class struggle is an important part of Marxism. Marx and Engels attached great importance to class struggle, which varied in content and form in the course of historical development. History has witnessed the class struggles between slaves and slave owners, between serfs or peasants and feudal landowners, and between the proletariat and the bourgeoisie. Marx pointed out that the class struggle between the proletariat and the bourgeoisie necessarily leads to the dictatorship of the proletariat and that this dictatorship only constitutes a transition to the abolition of all classes and to a classless society. Marx and Engels predicted that classes will no longer exist in a socialist society in which the means of production are no longer owned by the capitalists but by society as a whole. Envisaging the basic characteristics of a future society on the basis of general laws, they never tried to visualize the concrete process of the abolition of classes under the dictatorship of the proletariat.

Proceeding from the concrete conditions in Russia after the October Revolution, Lenin pointed out, "We know perfectly well that classes have remained in our country and will remain for a long time to come; and that in a country with a predominantly peasant population they are bound to remain for many, many years."<sup>1</sup> In a country with a peasant majority, the worker-peasant

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<sup>1</sup>V. I. Lenin, "Tenth Congress of the Russian Communist Party (B.)", *Collected Works*, Progress Publishers, Moscow, 1965, Vol. 32, p. 250.

alliance forms the basis of proletarian dictatorship. The proletariat must ally with the peasantry before it can exercise dictatorship over the bourgeoisie. The Soviet Government of Workers, Peasants and Soldiers was precisely the concrete form of the dictatorship of the proletariat in the Soviet Union. By the end of 1936, the socialist transformation of the ownership of the means of production had been basically completed in the country, whereupon Stalin declared that the exploiting classes no longer existed in the Soviet Union, that there were only the working class, the peasantry and the intelligentsia, and that, consequently, the class struggle between the proletariat and the bourgeoisie had come to an end. His analysis basically conformed to the conditions in the Soviet Union at the time. But he was not fully aware of the remaining class struggle and made some errors in theory and practice.

In the spring of 1949 when China's democratic revolution was approaching victory and its socialist revolution was about to begin, Mao Zedong pointed out that the principal contradiction at home would be the contradiction between the working class and the bourgeoisie. The political power we were going to establish after the victory of the revolution, he said, would be a people's democratic dictatorship led by the working class and based on a worker-peasant alliance. Such a people's democratic dictatorship would be a special form assumed by the dictatorship of the proletariat under China's historical conditions. Mao Zedong's theory about the dictatorship of the proletariat in China was a highly important one because he clearly defined the peasants' status in the political power and treated the contradiction between the working class and the national bourgeoisie as one within the ranks of the people, setting forth the policy of eliminating the bourgeoisie by uniting with it. At the same time, he emphasized that our state apparatus would exercise a double function: suppressing the class enemy and protecting people's democracy. By 1956-57, agricultural co-operatives had been established universally in the countryside and capitalist industry and commerce had changed over to joint state-private operation by whole trades. These developments brought fundamental changes to the class relations in the countryside and the bourgeoisie was virtually deprived of the economic basis for its existence. The bourgeois began to fade away as a class but remained

in existence because the former capitalists retained part of their right to exploit the labouring people by drawing a fixed interest on their capital. The bourgeois ceased to exist as a class when payment of their fixed interest was stopped in 1967, which meant they could no longer exploit people by their ownership of the means of production. Of course, a small number of people among them are hostile to socialism and the bourgeois ideology still has much influence on society at large. Instead of being a proof of the continued existence of the capitalists as a class, however, this only indicates the presence of the remnant forces of the bourgeoisie. No new society can be entirely free from the remnants of an old one. This situation, coupled with the bourgeois influence from other countries, accounts for the fact that class struggle is not entirely over. In particular, the ideological struggle between the proletariat and the bourgeoisie will go on for a long time. Ideologically China suffers from the influence of the bourgeoisie as well as that of the feudal class, and a struggle must be waged against both.

Analysing the changes in class forces in the country, Mao Zedong said in his 1957 report, "On the Correct Handling of Contradictions Among the People": "Today, matters stand as follows: The large-scale, turbulent class struggles of the masses characteristic of times of revolution have in the main come to an end, but class struggle is by no means entirely over."<sup>1</sup> At the time he laid much stress on the correct handling of contradictions among the people as a general subject, pointing out: clearly that the whole Party should shift the focus of its work to the modernization programme centred on revolutions in the technological and cultural spheres.

The class struggle which will remain within certain limits in socialist society bears some important features in content and form, which distinguish it from the class struggle discussed by Marx, Engels and Lenin.

In our country, since the bourgeoisie has lost the economic basis for its existence with the basic completion of the socialist transformation of the ownership of the means of production, counter-

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<sup>1</sup> Mao Zedong, "On the Correct Handling of Contradictions Among the People", *Selected Works*, FLP, Beijing, 1977, Vol. V, p. 395.

revolutionaries bent on opposing the Communist Party and socialism are few in number. In these circumstances, however, class struggle has not entirely come to an end. As pointed out by Hu Yaobang in his speech at the Twelfth National Congress of the Party, in China “within certain limits, class struggle will continue to exist for a long time and may even sharpen under certain conditions. This is not only because pernicious influences left over by the exploitative systems and classes cannot be eradicated within a short time, but also because we have not yet achieved our goal of reunifying our motherland and still live in a complicated international environment in which the capitalist forces and other forces hostile to our socialist cause will seek to corrupt us and harm our country. Our economy and culture are still quite backward and our young socialist system is imperfect in many ways, so that it is not yet possible to prevent the degeneration of some members of our society and Party or block the emergence of a few exploiting and hostile elements.” Therefore, “hostile elements of different shades are still attempting to undermine or overthrow our socialist system in the economic, political, ideological, cultural and other social spheres. The class struggle at the present stage chiefly takes the form of struggle by the people against these hostile elements.”<sup>21</sup>

On the other hand, it should be realized that these hostile, anti-socialist elements cannot form an open, full-fledged class. The present class struggle is a remnant form of the class struggle in history and is no longer the principal contradiction in China. We should not regard all the contradictions in real life as a matter of conflict with the bourgeoisie, much less treat each struggle as a contradiction between the people and their enemy. Exaggeration of class struggle does harm to stability and unity within the ranks of the people and is highly detrimental to socialist construction. It is a mistake to imagine that there is no longer any class struggle in a socialist society. It is an even bigger mistake to assume that class struggle keeps sharpening and intensifying in a socialist society—a view which conforms neither to the facts nor to the objective laws governing the development of class struggle. It is totally wrong, in a

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<sup>21</sup>Hu Yaobang, “Create a New Situation in All Fields of Socialist Modernization”, *The Twelfth National Congress of the CPC*, FLP, Beijing, 1982, pp. 50-51.

socialist society where the capitalist class has been eliminated as such, to put forth, and act on, the principle of "taking class struggle as the key link". During the "Cultural Revolution", the Lin Biao and Jiang Qing counter-revolutionary cliques distorted Mao Zedong Thought, called enemies revolutionaries and vice versa, mixed up the two different types of contradictions — those between the people and their enemies and those among the people themselves — and invented the myth about "new changes in class relations" in a deliberate attempt to confuse the class alignments. They spread the nonsense that the collective economy and collective peasants were engendering capitalism and the bourgeoisie daily and hourly, and slandered the majority of state enterprises as "strongholds of the bourgeoisie". They labelled the overwhelming majority of long-tested cadres as "capitalist roaders" and "the bourgeois within the Party", and whipped up counter-revolutionary sentiments for usurping supreme Party and state power. All their counter-revolutionary fallacies should be criticized and repudiated.

In a socialist society, chances for the rise of new exploiters are slim. When Lenin said that small production engendered capitalism and the bourgeoisie daily and hourly, he was referring to the times in the Soviet Union when the small-scale peasant economy had not been collectivized and the kulaks were still on the rampage. The conditions in China are quite different from what he spoke of in those days because our peasants have joined collectives and the spontaneous tendencies towards capitalism and the force of habit of small producers in our countryside are already restricted by the forces of socialism. We must not equate collective peasants with small private producers. Still less should we criticize the improving condition of the collective peasants as a capitalist tendency. Peasants in China are still quite poor, and the socialist relations of production can be consolidated and developed only when they produce more and become better off. Influenced by "Left" ideas, some people have a constant fear of the peasants being better off and becoming "bourgeois elements" in the process. They rush to criticize "capitalism" whenever farm production goes up and the peasants earn a little more. This has been an important reason for the sluggish growth of China's agriculture in recent years.

In my opinion, new exploiters will indeed appear in our country, but they will be few and we should not be afraid of them. Since the monetary system exists, graft and embezzlement are possible. Since the commodity system exists, there is a basis for speculation and profiteering. When graft and embezzlement, speculation and profiteering expand to a certain extent, new exploiters are likely to emerge. This happened at times when mistakes were made in our economic work, production declined and the people led a hard life. It also happened in some regions under the rule of the Gang of Four. It will probably happen again in the course of the reform of our system of economic management, in the extensive use of the functions of the market and the law of value, in the implementation of the policy of opening to the outside world and in the course of invigorating the domestic economy. It would be incorrect to deny these objective facts and possibilities.

But the new exploiters will be few in number. More successes in socialist construction, a better life for the people and a stronger socialist system will minimize the possibility of their emergence. With the modernization of the national economy, we shall raise the income of the workers and peasants several times, but without their ever turning into "bourgeois elements".

We should not be afraid of the new exploiters. Such people, engendered after the completion of socialist transformation, are incomparably inferior in number and strength as compared with the old bourgeoisie. Since we have remoulded a whole class of the old bourgeoisie by peaceful means, why should we be mortally afraid of a few new exploiters? The emergence of some new exploiters is unavoidable at the present stage, but there is no need to be overly alarmed. We have the strength to remould them and may refer them to our organs of dictatorship if they put up a desperate fight. In the past, we clamped down on a handful of grafters, embezzlers and speculators by launching large-scale mass movements, but there was a tendency to confound right and wrong and condemn as "capitalism" many of the things that were non-capitalist or even socialist. Stability and unity among the people was undermined, the enthusiasm of the masses dampened, production disrupted, and the socialist relations of production weakened. We must not

forget this lesson.

In the period of socialism, we cannot afford to overlook the reflection, in the ideological sphere, of class struggle. While we should not be blind to the struggle in the ideological sphere or treat it lightly, we should be fully aware of its special features. We should be aware that many ideological questions are not in the nature of class struggle. The present ideological struggle between socialism and capitalism, as mentioned above, finds the widest expression in a struggle within the ranks of the people, one in which they strive to free themselves from the ideological influence of the bourgeoisie. Mao Zedong said: "As far as unmistakable counter-revolutionaries and saboteurs of the socialist cause are concerned, the matter is easy, we simply deprive them of their freedom of speech. But incorrect ideas among the people are quite a different matter.... It is not only futile but very harmful to use crude methods in dealing with ideological questions among the people, with questions about man's mental world."<sup>1</sup> In this field we can only use the method of free discussion, reasoning, criticism and education. Only thus can we wage a correct struggle on the ideological front. If we fail to see or forget these characteristics and adopt an erroneous form or method of struggle, we shall not be able to eliminate gradually the bourgeois influence among the people. Worse still, our struggle against bourgeois influence will be undermined and such influence may even expand.

## 2. CONTRADICTIONS AMONG THE PEOPLE

China is still in a lower stage of socialism. The existence of two systems of socialist public ownership and the wide gap between mental and physical labour account for the presence of two classes, the workers and the peasants, and of the intelligentsia within the ranks of the people.

In his report on the Draft Constitution of the U.S.S.R. in 1936,

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<sup>1</sup>Mao Zedong, "On the Correct Handling of Contradictions Among the People" *Selected Works*, FLP, Beijing, 1977, Vol. V, pp. 410-11.

Stalin correctly pointed out that in the Soviet Union there were the working class, the peasantry and the intelligentsia. He also noted that the working class, the peasantry and the intelligentsia in a socialist society had undergone a change in nature as compared with their counterparts in a capitalist society, differing completely from them. His analysis of the social groups formed by people in the course of work in a socialist society were of both theoretical and practical significance. However, he only underscored the mutual help and co-operation among the workers, peasants and intellectuals but failed to observe the contradictions among them. In this report, "On the Correct Handling of Contradictions Among the People", Mao Zedong pointed out that contradictions among the people existed on a large scale in a socialist society. He further said that in the conditions prevailing in China today, the contradictions among the people chiefly comprised the contradictions within the working class, the contradictions within the peasantry, the contradictions within the intelligentsia, the contradictions between the working class and the peasantry, and the contradictions between the workers and peasants on the one hand and the intellectuals on the other. This generalization conforms to the realities under socialism.

The working class in a socialist society differs completely from that in a capitalist society in economic and political status. Under capitalism the workers possess no means of production, owning nothing except their labour power. That is why they are called the proletariat. As for the workers in a socialist country, although we often call them "the proletariat" by habit, in fact they are joint owners of the means of production. Politically they are no longer oppressed by the bourgeoisie, but have become the leading class and, together with the other labouring people, are masters of the country. That's why Stalin described them as a working class history has never known.

Similarly, the peasants in a socialist society enjoy a status entirely different from that of those in the old society. They have not only freed themselves from oppression and exploitation by the landlords, rich peasants and urban bourgeois, but ceased to be small producers. They have become collective peasants in a socialist collective economy where the means of production are jointly



owned. As Stalin put it, they are a peasantry history has never known.

The intellectuals in a socialist society also differ from those in the old society. The overwhelming majority of them are no longer petty-bourgeois intellectuals serving the bourgeoisie, but working-class intellectuals serving the workers, peasants and other labouring people. The intellectuals in China today are a component part of the working class. Like the workers and peasants, they are a basic social force in the construction of socialism, a force that can be relied on. People's class status is determined by their place in production and not by their state of mind. It would be a big mistake to classify many of our intellectuals as bourgeois just because they still bear the influence of the bourgeois world outlook.

The working class, the peasantry and the intellectuals in a socialist society share the same basic interest. But there are disparities among them in the distribution of the consumption fund because of the existence of the two different systems of socialist public ownership and the division between mental and manual labour. This gives rise to non-antagonistic contradictions among them, which the state must weigh carefully and handle correctly. Contradictions among the people come to the foreground once the means of production are basically put under socialist ownership. Only by correctly handling these contradictions can we mobilize all positive social factors for the struggle to build up the country into a powerful socialist state.

There are certain contradictions between the working class and the peasantry in a socialist country. A fairly big gap exists between our workers and peasants so far as their living standards are concerned. The living standards of both workers and peasants are determined directly or indirectly through state planning. Thus the contradiction between them often finds expression in the contradiction between the state and the collective economy. To expand socialist industry at a fast rate, the state must expand the ranks of the working class and improve their life steadily. The means of subsistence needed by the working class are mainly produced by the peasants. But as our agricultural growth lags behind our industrial progress, there arises a serious shortage of the means of subsistence, chiefly grain and non-staple foods. Meeting the needs

of the workers often prevents a full satisfaction of those of the peasants. To ensure the daily supply to the urban population, we introduced the system of purchasing major farm products on a requisition basis or by assigned quotas, committing the mistake of purchasing too much of them and leaving an inadequate amount of food grain for many peasants. This mistake dampened the enthusiasm of the peasants and affected agricultural growth, which in turn aggravated the shortage of grain and non-staple foods. It was a lesson we must never forget. Experience shows that the life of both the workers and peasants must be taken into consideration. To feed the workers well, we must enable the peasants to feed themselves well. It would be hard to meet the needs of the workers without meeting those of the peasants.

Speedy industrial construction requires a large sum of accumulation fund. Before heavy industry develops on a large scale, the main source of state accumulation can only be agriculture and light industry which depends on agriculture for raw materials. But the state must not take too much from the peasants and squeeze them too hard. This is a problem we have not solved well. The agricultural tax in China has always been relatively low, but the state has obtained several times more from the peasants by utilizing the "scissors" difference between industrial and farm prices. As a result, peasants in many areas can only carry on simple reproduction in agriculture and cannot even do this in times of natural disasters. In addition, the "Left" influence on the implementation of the Party's rural economic policies has seriously hampered agricultural growth and resulted in unsatisfactory relations between the workers and the peasants. After the Third Plenary Session of the Party's Eleventh Central Committee, there has been improvement in agricultural production and the overall situation in the rural areas due to the considerable rise in the purchasing prices of farm and side-line products. It seems unavoidable that the peasants have to contribute more to national construction before industry can provide the state with large sums of accumulation. But since industry has been providing an increasing amount of accumulation, it is both possible and necessary to readjust the prices of industrial and agricultural products so as to lessen the burden of the peasants. The Party's rural economic policies must

also be implemented in earnest to achieve a faster agricultural growth.

While narrowing the gap between workers and peasants, the socialist state should take proper measures to reduce gradually the discrepancies among the peasants in different areas, communes, brigades and teams. While we have paid some attention to narrowing the gap between workers and peasants, we have done little to minimize the differences between communes, brigades or teams. Instead, many of our policies and measures tended to widen these differences. For example, we levied a progressive agricultural tax in the early 1950s with small differences between the tax scales. For the last twenty years and more, we have kept to a policy of introducing no tax increase on increased output in order to boost agricultural production. Farm output has risen several times in some fast-developing areas. In terms of their output, the peasants there are being taxed at a much lower rate than those in slow-developing areas where output has remained particularly low. Again, to encourage peasants in high-yielding areas to sell grain to the state over and above the prescribed quotas, we pay higher prices for these extra sales. This will obviously widen the differences between the high and low-yielding areas. In recent years we have promoted commune industries and tried to stimulate agricultural growth through industrial development. But the areas which have seen a faster development of commune industries are those close to industrial cities, where the farm output and the peasant earnings are generally higher. Because of the above factors, the differences between areas, communes, brigades and teams are widening. The present state of affairs does not make for a speedy rise in the output in low-yielding areas and a nationwide agricultural growth. It is true that the high-yielding areas have been selling more commodity grain to the state. But it is also true that the low-yielding areas are still consuming grain which the state has to send back to the needy areas in the countryside, and the grain shortage remains as serious as ever. Since the implementation of some new policies after the Third Plenary Session of the Party's Eleventh Central Committee, there has been great development in many economically backward rural areas and the difference between areas has narrowed. We should continue to work

hard to promote production in these poor areas.

Although intellectuals in a socialist society have become part of the working class, certain contradictions exist between them and the workers and peasants. In the economic sector under ownership by the whole people, manual and mental workers enjoy an equal right to the ownership of the means of production. They are comrades doing different kinds of work, not two different classes. But there is still an essential distinction between mental and manual labour in the stage of socialism, a distinction which is more pronounced in an economically and culturally backward country than in a developed one because the scientific and cultural levels of the workers and peasants are much lower in the former. Thus intellectuals are a special stratum. Scientific and cultural pursuits and the responsibilities of leadership and management are undertaken by them as their fairly stable professions. Under the system of "to each according to his work", higher intellectuals should receive higher pay and enjoy a better living standard than the workers and peasants, the manual labourers. Different working conditions and living standards often lead to certain contradictions between the intellectuals and the workers and peasants. We should educate the two parties in the need for them to respect each other and develop comradely co-operation and assistance.

We should correctly implement the principle of "to each according to his work" in handling the well-being of these two types of labourers. Mental labour is a more complex type of labour. Our modernization programme calls for building a powerful contingent of specialists with a high standard of scientific and technological expertise and managerial skill, who will make greater contributions to the nation by performing highly intensive and creative labour. Thus it is reasonable and necessary to give them a higher pay and provide them with better living conditions than the average ones. We have not done enough to fulfil the needs of scientists and technicians in their life and work, making it difficult for them to contribute their best. This is harmful to the four modernizations.

Our long-range policy, however, is to gradually minimize the distinction between mental and manual labour. But this cannot be done by preventing the intellectuals from raising their scientific

and cultural levels. On the one hand, we should raise the scientific and cultural levels of the worker and peasant masses as fast as possible and train millions of workers, peasants and other labourers who are armed with modern technology and skills. On the other, we should also raise the level of our scientists and technicians as fast as possible and train vast numbers of cadres and intellectuals who are well versed in modern science and technology and in modern economic management, encouraging them to scale the heights of world science. As the revolutionary cause needs outstanding revolutionaries, so the modernization programme needs scientists, engineers and all kinds of specialists who are truly up to the mark.

From a long-term point of view, the distinction between mental and manual labour will gradually diminish. But in a given period and in given circumstances, such a distinction may even grow for a time. In China's agriculture, for instance, the division between mental and manual labour is not so pronounced because the two are basically combined in the process of hand operation. But the mechanization of agriculture will require a great number of scientists and technicians in this field. This means a growing distinction between mental and manual labour within a given period. On the basis of increased production and particularly a sharp rise in labour productivity, a gradual expansion of the contingent of mental labourers and a speedy improvement in their quality would be fully necessary and highly favourable to the further growth of social productive forces, the acceleration of modernization and the consolidation and development of the economic foundations of socialism. Recognition and preservation of the distinction between mental and manual labour are precisely a measure to create the conditions for the final elimination of such a distinction. This conforms to the dialectics of history. Before the conditions are ripe, a premature negation of the role of the division between mental and manual labour and an overstress on the need to minimize this distinction would only lead to a stagnation in the development of science and technology, hamper the rises in labour productivity, and cause losses to the state and the people.

The division between mental and manual labour arose at a time when social productive forces had developed to a certain but not a

full extent and when man must still devote most of his time to manual labour. With the spectacular developments in modern science and technology and their wide application in production, a tremendous amount of manual labour and even part of mental labour will be replaced by machinery. The growing social productive forces will provide an ever greater amount of surplus products, and all people will have more time to study science and culture and, in the course of time, everyone will be able to take up complex mental labour while performing manual labour. Then science and technology, culture, management and other work will change from being the special pursuits of a minority to the common activities of all members of society. In this way, “the enslaving subordination of the individual to the division of labour”, in the words of Marx, will gradually fade away. Only then can we, on the basis of a full satisfaction of the needs of all members of society in an affluent life, attain the goal defined by Engels, i.e., “leaving each individual sufficient leisure so that what is really worth preserving in historically inherited culture—science, art, forms of intercourse—may not only be preserved but converted from a monopoly of the ruling class into the common property of the whole of society, and may be further developed.”<sup>1</sup>

### **3. PEOPLE’S DEMOCRACY AND THE CORRECT HANDLING OF THE CONTRADICTION BETWEEN THE LEADERSHIP AND THE MASSES**

The socialist state has two functions, a political and an economic one. Its political function is, externally, to prevent foreign aggression and defend national independence and, internally, to safeguard people’s democracy and exercise dictatorship over the class enemy. While discussing the functions of the socialist state, we used to emphasize dictatorship over the class enemy but say little about the question of defending people’s democracy. That was in-

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<sup>1</sup>Frederick Engels, “The Housing Question”, in Karl Marx and Frederick Engels, *Selected Works*, in three volumes, Progress Publishers, Moscow, 1976, Vol II, p. 312.

adequate. Marx and Lenin stressed the need for the proletariat to exercise resolute dictatorship over the class enemy in the period of revolutionary transition from capitalism to communism because that period involves an acute struggle to decide who will win out—the proletariat or the bourgeoisie, socialism or capitalism. Even in that period it is necessary to practise extensive people's democracy for reliance on the people's strength to exercise effective dictatorship over the class enemy. After the means of production are basically put under socialist ownership, although the remnant forces of the bourgeoisie and other exploiting classes still exist, social contradictions find expression on a vast scale in contradictions among the people and not in those between the people and their enemy. Contradictions among the people can only be resolved by democratic methods. Thus the defence of people's democracy, the establishment of socialist democracy and the correct handling of contradictions among the people through various policies and decrees should be the foremost political task of the socialist state. This does not mean that we may forget about our dictatorship over the class enemy. It only means that this dictatorship has become secondary to the defence of people's democracy.

China's socialist relations of production have been built on the debris of a semi-feudal system and not on the basis of a developed capitalist system. Historically China lacks a tradition of bourgeois democracy. Bourgeois democracy is backward as compared with proletarian democracy, but it is progressive when contrasted with feudal autocracy. What we had in old China was not bourgeois democracy but feudal autocracy which turned into feudal fascism under the Kuomintang reactionaries. With the birth of New China, the people became masters of the country. This created a most favourable condition for the promotion of people's democracy. Socialist democracy is the broadest type of democracy. We should have done our best to promote people's democracy after putting the means of production under socialist ownership. For a time, however, class struggle was conducted on an excessive scale and certain contradictions among the people were treated as those between the people and their enemy. This naturally did harm to people's democracy. Inner-Party democracy and socio-political democracy had not been institutionalized or legalized.

Even though some related laws were made, they did not possess adequate authority. During the "Cultural Revolution", the Lin Biao and Jiang Qing counter-revolutionary cliques exercised "all-round dictatorship" over the vast numbers of cadres and the masses. This fully revealed the seriousness of the pernicious influence of lingering feudal autocracy in the ideological and political spheres, and sabotaged our socialist democracy to an appalling degree.

The crushing of the Gang of Four paved the way for a full extension of people's democracy, for the restoration and development of socialist democracy. But the ideological vestiges of feudal autocracy left over from history cannot be eliminated in a short time. Neither can the cultural level of the people be raised overnight. These are some of the reasons why bureaucracy is easily engendered in government organs, enterprises and other institutions, giving rise to contradictions between the leaders and the masses. Speaking of the correct handling of contradictions among the people, Mao Zedong pointed out: "Our People's Government is one that genuinely represents the people's interests, it is a government that serves the people. Nevertheless, there are still certain contradictions between this government and the people. These include the contradictions between the interests of the state and the interests of the collective on the one hand and the interests of the individual on the other, between democracy and centralism, between the leadership and the led, and the contradictions arising from the bureaucratic style of work of some of the state personnel in their relations with the masses."<sup>1</sup> He paid special attention to the contradiction between the leading cadres and the masses. If the leading cadres treated the labouring masses in a bureaucratic manner, he said, the masses would think that the factories belonged to the cadres and not to themselves. Don't imagine that a change in the system of ownership would naturally result in comradely co-operation between the leadership and the masses. On several occasions he criticized those leading cadres who, enjoying their high position and handsome salaries, lived in

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<sup>1</sup>Mao Zedong, "On the Correct Handling of Contradictions Among the People", *Selected Works*, FLP, Beijing, 1977, Vol. V. pp. 385-86.



ease and comfort and acted like mighty officials sitting on the backs of the people. He urged cadres to go among the masses, go deep into the realities of life and share weal and woe with the masses. Over the years, a small number of degenerates have emerged among our cadres. Quite a few of them were key members of the factions under the Lin Biao and Jiang Qing counter-revolutionary cliques. Such degenerates are found in the higher and lower organs of leadership. Some of the cadres in rural communes, brigades and teams act as if they enjoyed feudal privileges, bullying the peasants at will or even cursing and beating them. In Party and government organs, enterprises and other institutions, there are frequent cases of one or a few persons making arbitrary decisions, turning a deaf ear to the criticism from the masses, harbouring hatred against critics and retaliating against them when the time comes. There is an urgent need to answer the question of how the relations between the leadership and the masses can be improved, socialist democracy developed, the socialist legal system perfected and proletarian democratic centralism correctly applied.

An important question in improving the relations between the leadership and the masses is how the leading cadres may be prevented from seeking privileges. Summing up the experience of the Paris Commune, Marx and Engels pointed out that after its seizure of power, the proletariat must adopt resolute measures to prevent "place-hunting and careerism" among its state personnel and "their transformation from servants of society into masters of society" Lenin, too, praised the measures taken by the Paris Commune against the transformation of servants of society into masters of society, defining them as measures "against [their] transformation into bureaucrats" and into "privileged persons divorced from the masses and standing *above* the masses".<sup>1</sup> This question deserves our constant attention. In socialist revolution and construction, we should educate our leading cadres at all levels in the need to persevere in the glorious tradition of the revolution and consciously refrain from seeking special privileges in violation of state rules and regulations. Better living and working conditions for the leading cadres are necessary and are understandable to the masses; we certainly do not stand for egalitar-

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<sup>1</sup>V.I. Lenin, *The State and Revolution*, FLP, Beijing, 1976, pp. 133 and 140.

ianism. However, the unreasonably high standards must be changed and all privileges abolished. In particular, all forms of wanton appropriation of state property against laws and regulations must be dealt with sternly. Only thus can the unity of the leadership and the masses be strengthened and the socialist enthusiasm of the masses brought into full play.

The fundamental way to handle correctly the contradictions between the leading cadres and the masses is to promote socialist democracy and resolutely protect the people's democratic rights as stipulated in the Constitution and other statutes. Socialist democracy should be extended to all spheres of life, political, economic, cultural and social. It is necessary to extend democratic management to all enterprises and institutions and encourage self-management of community affairs by the masses at the grass-roots level, and the organs of political power at all levels must truly be democratically elected. Leading cadres of government agencies and of some state enterprises cannot all be elected by the rank and file in these establishments because they should represent the interests of the whole people and not merely those of the masses there and should largely be appointed by higher organs. But these leading cadres must also be supervised by the masses in their organizations, who have the right to demand the removal of the incompetent ones. Polls by secret ballot may be conducted at regular intervals to canvass opinion on the performance of the leading cadres so that the higher organs may have something upon which to base their reshuffling of leading bodies. The leading cadres of some enterprises and institutions, such as schools and research institutes, and of the workshops, teams and groups in factories may be elected by the masses.

The trade unions or congresses of workers and staff members in state enterprises should enjoy a wide range of democratic rights. The production and business plans of an enterprise and the concrete measures for their fulfilment should be submitted to them for free discussion. Leading cadres of an enterprise should report on the progress of its work to the trade union or workers' congress at regular intervals. Plans on technical innovations, the trial-manufacture of new products, and the distribution and use of the business fund, should also be submitted to the masses for demo-

cratic discussion. Decisions on collective welfare and the promotion, awarding or punishment of workers and staff members should be made jointly by the leading body and the trade union in an enterprise. Trade union and workers' representatives who are not divorced from production should be invited to sit on the leading body of an enterprise. To make the masses the real masters and enhance their sense of responsibility as such, enterprises and institutions must seriously try out a system of democratic management by the masses. This is the only effective way to prevent the degeneration of some leading cadres and the seeking of privileges.

The question of safeguarding the democratic rights of the labouring masses in the economic sector under collective ownership is an even more pressing one because there are more vestiges of feudal autocracy in the countryside. Although it is stipulated in state regulations that cadres in the communes, brigades and teams are to be elected democratically by their members, this has not been put into practice in many areas. There are still serious cases of cadres enjoying privileges and bullying the masses. At the same time, it is fairly common for higher organs to encroach upon the decision-making power of communes, brigades and teams and issue arbitrary orders to them. Many people are already used to such a state of affairs and no longer regard it as a serious problem. Fighting "the spontaneous forces of capitalism" in the countryside year in and year out, we were nevertheless blind to the force of habit of feudal autocracy. Don't think that vestiges of feudalism have been thoroughly eliminated with the completion of land reform. The force of habit of feudalism can be eradicated only through an earnest development of people's democracy. Without people's democracy, the building of socialism in the countryside is out of the question.

Ours is a country lacking a democratic tradition. How to develop people's democracy and promote socialist democracy as distinguished from bourgeois democracy is a question that remains to be solved in theory and practice. It is theoretically unquestionable that the people's congresses and people's governments at all levels, which represent the interests of the whole people, should be elected by the people. But the problem of how the electors can elect delegates who keep close, regular contact with them has not

been fully solved in practice. The various government agencies and state enterprises and institutions do not represent the whole people directly but serve them under the direction of the people's governments at various levels. The leading cadres of government agencies should be answerable to the people's governments and should also be supervised by the workers and staff of these agencies. The leading cadres of state enterprises should be answerable to the higher organs and should also be supervised by the workers and staff of these enterprises. How to combine mass supervision with acceptance of the leadership of the higher organs is a theoretical question that needs further study. If the leading cadres of an enterprise are all elected and supervised by the masses instead of being appointed or discharged by a higher organ, they will very likely reject the leadership of the higher organ and place the interests of their enterprise above those of the whole society. In that case, there will be few difference between such an enterprise and a unit under collective ownership. Conversely, if the leading cadres of an enterprise are only directed by a higher organ and not supervised by the masses, how can the labouring people change from being mere employees of an enterprise to its masters?

The cadres of economic units under collective ownership should be elected by their members. Nevertheless, they should also accept the leadership of the local governments. While exercising their democratic rights, the collective peasants must also abide by the policies and decrees of the state and fulfil their duties to the latter. This is where socialist democracy differs from capitalist democracy. Questions like these call for serious study.

## Conclusion

# OBJECTIVE LAWS OF SOCIALIST ECONOMIC DEVELOPMENT

## 1. MARXIST THEORY ON THE BUILDING OF SOCIALISM

In his "Preface to the First German Edition" of the first volume of *Capital*, Marx wrote: "It is the ultimate aim of this work to lay bare the economic law of motion of modern society."<sup>1</sup> Marx devoted his whole life to the study of capitalist economy, which had by then lasted two or three hundred years, and discovered the objective laws governing its development. But he lived in times of free capitalist competition, and since monopoly capitalism was only in its budding stage at the time of his death, he could not have acquired a systematic understanding of the laws of its development. In *Imperialism, the Highest Stage of Capitalism*, Lenin analysed the new situation in the period of monopoly capitalism and developed Marxism by elucidating the laws of capitalist economic growth in this new era. More than sixty years have gone by since Lenin wrote his book. The capitalist world has made fresh advances and many new situations and problems have appeared, which we should study and solve in order to make necessary additions to Marxist theory. As capitalist society has not yet run its course, we cannot say that we have arrived at a complete understanding of the laws of capitalist economic growth.

Socialism is a new social system with a brief history. It has only been thirty years since the socialist revolution began in China and we have not accumulated sufficient experience in our social prac-

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<sup>1</sup>Karl Marx, *Capital*, FLPH, Moscow, 1958, Vol. I, p. 10.

tice. Since we had an extremely backward economy to start with and our present socialist relations of production are far from mature, we have many difficulties in studying the laws of socialist economic development. On the whole, the building of socialism remains an unknown "realm of necessity" for us, to use the words of Engels. Whatever we know about this "realm of necessity" is far from complete or profound. We have a long way to go before we get to know the laws governing socialist economic development.

But knowledge of the laws of socialist economic development will come as neither a gift from heaven nor a revelation of a "genius" or "prophet". We can discover the intrinsic laws of such a development only through systematic and careful research on socio-economic conditions and the practical experience of millions of people in the building of socialism, and an elevation of perceptual knowledge to the level of rational knowledge, i.e., to theory. We cannot complete our understanding of objective laws by a single move. We must test to see if our knowledge, as manifest in our line, principles, policies and plans, brings anticipated results, is accurate and corresponds to objective reality. Practice, knowledge, practice again, and knowledge again—this is the inevitable process by which we come to know objective laws. As history advances, our knowledge of objective things may fall behind their evolution and will need to be amended in the light of new circumstances. The history of socialist development is far from complete. We of course cannot refrain from looking into the laws of socialist development until after its completion. We must review our experience in the course of practice so that our knowledge grows with the progress of history.

In the *Manifesto of the Communist Party* published in 1848, Marx and Engels analysed the innate contradictions of capitalism and predicted its inevitable doom and its replacement by a communist society free from all class exploitation. Later, in the light of historical experience, they gradually realized that communism would also develop from a lower to a higher stage. After the failure of the Paris Commune in 1871, Marx reviewed the new experience it had provided and, in his 1875 manuscript, *Critique of the Gotha Programme*, advanced for the first time the thesis that "between capitalist and communist society lies the period of the re-

volutionary transformation of the one into the other” as well as the theory of the two stages of development of communist society. According to this theory, at the lower stage of communism, i.e., the stage of socialism, public ownership of the means of production by the whole of society would be established and classes abolished, but the traditions and birthmarks of the old society would have to be retained and the principle of “to each according to his work” followed in the distribution of the means of subsistence. Marx assumed that such a distribution would be conducted by means of labour certificates issued in direct proportion to the amount of labour provided by the producers and not through the market or the commodity-money relationship. Only at the higher stage of communism could payment for labour be abolished and the principle of “from each according to his ability, to each according to his needs” carried out. Marx lived in times when nobody had any practical experience with socialism. Thus he could not have elaborated on the laws of socialist economic development. Nevertheless, he applied “the theory of development—in its most consistent, complete, considered and pithy form—to modern capitalism. Naturally, Marx was faced with the problem of applying the theory both to the *forthcoming* collapse of capitalism and to the *future* development of *future* communism.”<sup>1</sup> On the basis of his overall understanding of the law of social development, Marx criticized Lassalle’s theory of undiminished, fair distribution of the proceeds of labour and made the above scientific prediction about future socialism and communism. A systematic exposition of these ideas of Marx was provided by Lenin in *The State and Revolution*.

The victory of the October Socialist Revolution translated socialism from an ideal into a reality. Russia was a country with a medium level of capitalist development where industrialization had not been completed nationally and a small-scale peasant economy was predominant. Building socialism in such a country was much more difficult and complicated than it would be after the victory of the revolution in a developed capitalist country where industrialization had been completed and the small-scale peasant economy was insignificant. This required a series of special methods

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<sup>1</sup>V.I. Lenin, *The State and Revolution*, FLP, Beijing, 1976, pp. 102-03.

for carrying out a transition. The first question was how to deal with the small-scale peasant economy. Marx and Engels said that it should be guided onto the course of co-operatives. But how should this be done? There was no precedent. In the period of civil war and armed foreign intervention which followed the October Revolution, "War Communism" was enforced out of necessity and it was assumed that the commodity-money relationship could be abolished fairly soon—an assumption which resulted in a detour in Soviet economic development. The sharp drop in agricultural production, caused mainly by war, also had to do with some aspects of the economic policy which violated the objective laws of economic development. Being good at drawing lessons and rectifying mistakes, Lenin shifted to the New Economic Policy right after victory in the war, which meant allowing the peasants freedom to sell their surplus grain on the market after payment of the tax in kind and restoring the commodity-money relationship. This policy rehabilitated agricultural production speedily. (In China no "War Communism" was imposed on the peasants in the years of revolutionary war, during which a rural policy close to the NEP was carried out.) Lenin deemed it necessary to preserve the commodity-money relationship for a fairly long time after the proletarian seizure of power so as to maintain the economic ties between the socialist state economy and the small producers. This was a fresh contribution to Marxism.

Socialism cannot be built upon a small-scale peasant economy. In line with Marxist principles, Lenin put forward a "co-operative plan" for the socialist transformation of the small-scale peasant economy and the rehabilitation and expansion of big industry. In his seven years of practical experience with socialism, Lenin gave a series of pithy instructions on all aspects of socialist construction, leaving a valuable legacy to us. Unfortunately, he died too early and, by the time of his death, the transformation of the small-scale peasant economy through the establishment of co-operatives had only been tried out in a few places and socialist construction was just beginning. He was naturally unable to offer a systematic elucidation of the laws of socialist economic development.

To fulfil Lenin's behests, Stalin led the Soviet people in accomplishing agricultural collectivization and national industrialization



and establishing a socialist economic system. In *Economic Problems of Socialism in the U.S.S.R.*, which he wrote about a year before his death, he emphasized the question of the laws of economic development under socialism, chiefly the law that the relations of production must conform to the character of the productive forces, the basic economic law of socialism, the law of balanced, proportionate development of the national economy and the law of value. Observing the two types of socialist public ownership existing side by side in the U.S.S.R., he elucidated many important questions concerning the use of objective economic laws in the interests of socialism. This was Stalin's new contribution to Marxism-Leninism. In retrospect, some of his arguments seem weak. But this was inevitable and, compared with previous attainments, they marked a big advance in man's knowledge of socialist economic development.

In his *Economic Problems of Socialism in the U.S.S.R.*, Stalin stressed the objective nature of economic laws under socialism and pointed out that men, including the Soviet state and its leaders, could not abolish, create or change these laws, but might discover and grasp them and utilize them in the interests of socialist construction. Of course this did not mean they had acquired a full understanding of these laws or were acting in full conformity with them. Acting in accordance with objective laws, the Soviet state achieved tremendous successes in socialist construction. But it was also punished many times for going against these laws. By raising in his last years the question of economic laws under socialism and their objective nature, Stalin drew an important lesson from more than thirty years' experience in national construction in the U.S.S.R., teaching people to study and apply objective laws conscientiously, correct mistakes in theory and practical work, avoid blindness wherever possible, sharpen their foresight and push forward the cause of socialism.

China is a big country with a population of one billion. We began building socialism on the ruins of semi-colonialism and semi-feudalism and not on those of developed capitalism; we are striving to accomplish the country's four modernizations despite a huge population and a poor foundation. This is a colossal task never attempted by our forefathers. Thus we must answer well the

question of the method to be adopted and the course to be followed in building up the country. We will of course take Marxism-Leninism as the guide to our thinking. But this does not mean to copy mechanically the formula on the first stage of communism advanced by Marx in the *Critique of the Gotha Programme* or by Lenin in *The State and Revolution*. We should learn from the experience in the building of socialism in the Soviet Union under Lenin and Stalin and from all that is good in other countries. When we embarked on socialist construction in the early 1950s, we benefited much from our study of Stalin's *Economic Problems of Socialism in the U.S.S.R.* and the experience in the Soviet Union. But our understanding must not stop there. Copying the experience of others does not solve our problem. We must base ourselves on practice, try to find China's own way of building socialism and work out a whole set of methods in order to build a socialist society which suits the present level of productive forces and other conditions in China. In his "Talk at an Enlarged Working Conference Convened by the Central Committee of the Communist Party of China" in 1962, Mao Zedong pointed out, "Getting to know the laws governing the building of socialism necessarily involves a process. We must take practice as the starting-point and move from having no experience to having some experience, from having little experience to having more experience...." He also said, "As for our Party as a whole, our knowledge of socialist construction is very inadequate. In the forthcoming period we should accumulate experience and study hard, and in the course of practice gradually deepen our understanding and become clearer on the laws of socialist construction."<sup>1</sup> His teachings still have a practical significance today.

Historical experience shows that objective laws are at once omnipresent and non-present. When you do not contravene them, they seem to be non-existent. When you do, they will have you punished. A summary of successful experiences can of course clarify for us the objective laws of economic development, but a review of lessons of failure can be even more instructive and con-

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<sup>1</sup>Mao Zedong, *Talk at an Enlarged Working Conference Convened by the Central Committee of the Communist Party of China*, FLP, Beijing, 1978, pp. 18 and 22.

vince us that objective laws are not to be violated. Men often correct their mistakes by drawing lessons from failures, enabling themselves to know the objective laws governing the development of things and turn failure into success. Thus there is only one way for us to know the objective laws governing socialist economic development, that is, to act upon the fundamental tenets of Marxism-Leninism, analyse our successful and unsuccessful experience in socialist revolution and construction, deduce from it the laws governing the development of China's socialist economy, and take them as a guide to action. Generally speaking, if our line, principles, policies and plans turn out to be successful, they are correct and prove the relative accuracy of our knowledge of the laws of socialist economic development. If they end in failure, they show that our knowledge is inaccurate or our method is wrong, and that we must draw lessons from them and rectify our mistakes. Even if we have acquired a relatively accurate knowledge of the laws of socialist economic development, we will still have to replenish and advance it continually by studying new circumstances and experience.

Some comrades were not sufficiently aware of the importance of studying and observing objective laws and were confused about the relationship between the Party line and objective laws. According to them, the line is the key link and the accuracy of our knowledge of objective laws should be judged by its conformity with the Party line. This was an inversion of cause and effect. It is the laws that determine the line, principles and policies, not vice versa. The Party's line, principles and policies should be formulated in light of the requirements of objective laws and their correctness should be judged by their conformity with these laws. Some other comrades fear that observing objective economic laws would mean an abandonment of politics. This is a misconception. Politics is the concentrated expression of economics; violation of objective laws of economic development hinders the growth of productive forces and may even undermine these forces, doing serious harm to the fundamental interests of the labouring people as a whole. How could we have such politics? We should have a correct understanding of the relationship between politics and economics, and we should act according to

objective economic laws while paying adequate attention to politics.

## 2. ECONOMIC LAWS OF SOCIALISM

There are different formulations about the economic laws of socialism. Marx pointed out in his *Critique of the Gotha Programme* that a socialist society must carry out the principle of "to each according to his work", and that this is an objective law independent of man's will. In his *Economic Problems of Socialism in the U.S.S.R.*, Stalin referred to the law that the relations of production must conform with the character of the productive forces, the basic economic law of socialism, the law of balanced, proportionate development of the national economy, the law of value, and so on. (He stressed that the law of value still plays a role in socialist society. This is a significant addition to Marxism-Leninism.) These are all important economic laws in a socialist society. They arise from different circumstances and may be classified into the following types:

1. *A common law that runs through all stages of the development of human society, i.e., the law that the relations of production must conform with the level of the growth of productive forces.* This law has operated in all stages of human society but is of particular importance to socialist society. All socio-economic formations in human history came into being spontaneously in correspondence with this economic law. The case is different with the socialist relations of production, which emerge and develop gradually through the application of the principles and policies set by the proletariat which has consciously grasped the same objective law. Before liberation, the Chinese Communist Party formulated a political programme for a transition to a socialist revolution via a democratic revolution. After the birth of New China, the Party announced in 1953 the general line for the period of transition from capitalism to socialism, which provided for the socialist transformation of the ownership of the means of production. This led to the belief that the rise and gradual reform of the socialist relations of production may be determined by the subjective will of the Party without following the objective laws of socialist economic development. This

view led to serious mistakes. Even today, many of our comrades underestimate the difficulties involved in the building of socialism in our country where the level of productive forces is very low, particularly in agriculture. They are apt to make a rash advance whenever the economic situation is good. Taking advantage of people's inadequate knowledge of this law, the Lin Biao and Jiang Qing counter-revolutionary cliques dished out many ultra-Left slogans to make trouble, bringing enormous losses to our national economy. We must take warning from this.

When Marx spoke of the contradiction between the relations of production and the productive forces, he often referred to cases where the relations of production lagged behind the requirements of the growing productive forces. That was because he was analysing mainly the capitalist system which had become an obstacle to the development of productive forces. But he also pointed out in clear-cut terms:

A social order never perishes before all the productive forces for which it is broadly sufficient have been developed, and new superior relations of production never replace older ones before the material conditions for their existence have matured within the womb of the old society. Mankind thus inevitably sets itself only such tasks as it can solve, since closer examination will always show that the task itself arises only when the material conditions for its solution are already present or at least in the process of formation.<sup>1</sup>

Over the past thirty years, people appear to have unanimously acknowledged this objective law — the relations of production must conform with the level of the growth of productive forces. In practice, however, they have differed in their understanding of the dialectical relationship between the socialist relations of production and the developing productive forces. For a time, we overemphasized how backward relations of production would fetter productive forces and hastened to change the relations of pro-

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<sup>1</sup>Karl Marx, *Preface and Introduction to "A Contribution to the Critique of Political Economy"*, FLP, Beijing, 1976, p. 4.

duction in the absence of a significant growth in productive forces. We failed to see that a change in the relations of production that was too radical for the actual growth of productive forces would likewise hamper such a growth. The rise of new relations of production opened broad vistas for the growth of productive forces. But we were not fully aware of the need to stabilize these new relations of production and concentrate on raising the level of productive forces. These misconceptions accounted for the lasting dominance of the idea that a "Left" mistake was more justifiable than a Right one and it was better to be too much to the left than too much to the right. As a result we took rash steps to change the relations of production, a mistake which was repeated over and over again in some regions, causing heavy losses to industrial and agricultural production. In view of all this, when we study questions of China's socialist economy, we must grasp this most important economic law of human history by applying the vital principle that practice is the sole criterion of truth. Instead of reciting the law as a dogma, we must be clear on its specific content and dialectics by examining the practical experience in China's socialist revolution and construction.

2. *The economic laws common to socialism and communism.* These may be regarded as the economic laws of communism from the standpoint of Marx's thesis that socialism is a lower stage of communism. As a lower stage of communism, socialism is naturally governed by the general economic laws of communism, though they operate in forms different from those in the higher stage. In his *Economic Problems of Socialism in the U.S.S.R.*, Stalin set forth two economic laws of socialism, namely, the basic economic law of socialism and the law of balanced, proportionate development of the national economy. These two economic laws are actually economic laws of communism because they not only operate at the lower stage of communism, i. e., the stage of socialism, but will play a fuller role at the higher stage of communism. At the stage of socialism, the operation of these two laws is somewhat restricted. The basic economic law of socialism is, in Stalin's words, the securing of the maximum satisfaction of the constantly rising material and cultural requirements of the whole of society through the continuous expansion and perfection of socialist pro-

duction on the basis of higher techniques. Clearly, we cannot as yet develop the socialist economy "on the basis of higher techniques" everywhere, nor secure "the maximum satisfaction" of the needs of the whole nation. As for the law of balanced, proportionate development of the national economy, it cannot operate fully in the economic sector under collective ownership, and not even in the economic sector under ownership by the whole people unless it is aided by the law of value.

The basic economic law of socialism came into being as an antithesis to the basic economic law of capitalism, i.e., the law of surplus value. The aim of capitalist production is to secure surplus value for the bourgeoisie whereas the aim of socialist production is to satisfy the needs in the material and cultural life of the whole people. Furthermore, the method used to achieve the socialist aim is fundamentally different from that used to achieve the capitalist aim. Stalin's formulation contained a succinct statement of the aim of production and the method to achieve it under socialism as distinguished from those under capitalism, providing important guidance for the exercise of leadership in socialist economic construction. As pointed out by the Party's Central Committee, "After socialist transformation was fundamentally completed, the principal contradiction our country has had to resolve is that between the growing material and cultural needs of the people and the backwardness of social production. It was imperative that the focus of Party and government work be shifted to socialist modernization centring on economic construction and that the people's material and cultural life be gradually improved by means of an immense expansion of the productive forces."<sup>1</sup> This passage reflects the basic economic law of socialism.

A socialist country develops production to better the life of the people, but this is easier said than done. To satisfy the needs of the people sooner and better, we must conduct extended reproduction at high speed. This makes it necessary to set aside a bigger accumulation fund from the national income. But in a given

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<sup>1</sup>"Resolution on Certain Questions in the History of Our Party Since the Founding of the People's Republic of China." *Resolution on CPC History (1949-81)*, FLP, Beijing, 1981, p.76.

period of time, higher accumulation means lower consumption or a restriction on the improvement of the people's present conditions, which implies a contradiction with the satisfaction of the people's needs. A socialist state must handle this contradiction correctly, taking into consideration and making overall arrangements for both the development of production and the satisfaction of consumer needs. It is all the more important to handle this contradiction well in a country like China, which is both populous and poor. We have not handled this contradiction well in the past twenty years. Quite a few of our comrades did not understand that the ultimate aim of production and construction is to improve the life of the people. Preoccupied with achieving speedy results, they paid exclusive attention to the development of production but neglected to raise, and sometimes even lowered, the people's living standard in their attempt to accelerate production and construction. This line of action ran counter to objective laws, with the result that the people's life remained unimproved for a long time, the superiority of the socialist system could not be brought into play, the enthusiasm of the people was dampened, the rational proportions of the national economy were upset and, consequently, production and construction were slowed down. This erroneous tendency of "production for production's sake" must be prevented. State plans must give prominence to proper arrangements for the people's life, balance national construction with the people's life and balance national construction with the people's welfare. Every enterprise must constantly raise productivity, reduce production costs, base its production on the needs of society and pay attention to the quality, variety and specifications of products instead of working blindly for meaningless figures of output or output value, i.e., expending much manpower and material on the production of goods not needed by the state or the people. It is all the more important for economic units under collective ownership to handle correctly the relationship between expanding production and improving the life of their members. The living standard of the urban and rural people will be able to improve constantly when production develops.

The socialist economy must develop in a planned and proportionate way. A proportionate development of the various de-



partments of the national economy is necessary for any socialized mass production, whether socialist or capitalist. The difference lies in that the proportions of a capitalist economy take shape mainly through spontaneous regulation by the law of value and the law of surplus value (including the law of the equalization of profit) and often through periodic economic crises, while those in a socialist economy take shape mainly through state planning. Thus socialist economic development is not only a proportionate, but also a *planned* development. This law, as defined by Stalin, also appeared as an antithesis to the capitalist law of anarchy in production. It is an objective law that shows the special features and requirements of reproduction in a socialist society.

Without studying this law seriously, many of our comrades blindly pushed up the targets, thinking that it was unconditionally better to have a higher production rate and more construction. As a result, serious disproportions appeared between accumulation and consumption and between agriculture, light industry and heavy industry, and production and construction showed little progress. Our experience in the past three decades has taught us that to develop production at a high speed, we must always make a conscious effort to maintain the proper proportions, particularly those between accumulation and consumption and between agriculture, light industry and heavy industry. The rate of accumulation should not be too high. In drawing up the national economic plan, we must put agriculture first and keep to the order of priority of agriculture, light industry and heavy industry. Only thus can we maintain the balance between the various departments of the national economy and create favourable conditions for a sustained high-speed development.

3. *The law of value which has existed under several socio-economic formations and which continues to play an important role in a socialist economy.* As discussed earlier, the law of value is bound to operate in a socialist society because of the continuance of the production and exchange of commodities. The socialist state must conduct commodity exchange, i.e., the exchange of industrial goods for farm produce, between industry under ownership by the whole people and agriculture under collective ownership. It must also use the exchange of commodities through money as a means

of distributing consumer goods among labourers on the principle of compensating an equal amount of labour with an equal amount of products. Obviously, the law of value continues to play an important role in these spheres. As for the exchange of products between state enterprises under ownership by the whole people, we have always calculated their profits and losses on a unified basis or, as the metaphor goes, by letting everybody "eat the rice cooked in the same big pot". Experience over the past three decades shows that this practice seriously weakens the initiative and self-reliance of the enterprises in improving business operations. It should be admitted that exchange between state enterprises has the nature of commodity exchange. Each enterprise should conduct independent business accounting and properly combine the interests of the state with its own. In short, the state must use the law of value as a means of fulfilling its economic plan.

Some comrades used to set the law of planned, proportionate development of the national economy against the law of value, maintaining that the one does not operate where the other does. The fact is, the two laws operate simultaneously, but in a given case the one may play the leading role and the other an auxiliary one. On the whole, the law of planned, proportionate development of the national economy plays the leading role in a socialist economy while the law of value plays an auxiliary role. But it does not mean that we can do without the law of value in some of our economic activities. On the contrary, we must apply it in all our economic activities whether they are covered by plans or not, whether they are covered by the mandatory or the guidance plans. The only difference is whether we apply the law of value consciously or let it operate spontaneously. The socialist state cannot possibly include the production and exchange of all products in its planning. By its planning, it can only exercise more control over the state economy and less on the collective economy, more over the major products and less over the minor ones. While it has to utilize the role of the law of value in handling the products included in its plan, it must do so to a fuller extent in dealing with those not included in the plan, that is, those subject to market regulation. Our business administrators must be good at utilizing the law of value in the interests of socialist economic construction.

Our knowledge of the law of value has been inadequate, resulting in its contravention through wide gaps between the prices of many products and their values. We should remedy these through a series of readjustments.

In the past twenty years or so, we have not been good at maintaining a proportionate development of the different departments of the national economy by a rational readjustment of prices. Many important farm products were priced too low, affecting extended reproduction in agriculture. We did not make full use of the role of the law of value to resolve the contradiction between supply and demand through timely price readjustment. Instead, we resorted to administrative means and overused such methods as state monopoly purchase, purchase on a requisition basis or by assigned quotas, and rationing of consumer goods. Such measures may be used for a brief period under unusual circumstances created by war or serious natural calamities. They may also be necessary for regulating within a certain period the supply and demand on important products essential for the national economy and the people's livelihood. But they must not be used indefinitely or applied extensively, and it would be a bigger mistake to claim, as some comrades have, that they were "indispensable for a planned socialist economy" and a concrete manifestation of the "superiority of the socialist system". While reforming the structure of economic management and extending the decision-making power of grassroots enterprises, including communes, brigades and teams, the state must strictly observe the law of value and make intelligent use of it so as to ensure a planned, proportionate development of the national economy.

4. *Economic laws peculiar to the period of socialism.* One of these laws is "to each according to his work". This law exists neither in capitalist society nor in the higher stage of communism. The wage system in a socialist society is different from that in a capitalist society. The social products produced by the working people in a socialist society are distributed, after the necessary social deductions, to individuals according to the quantity and quality of each one's work and his contribution to society, not according to his needs in life as will be the practice in the higher stage of communism. In a socialist society, social products are not yet

abundant enough to meet all the needs of the whole people; the working people are not yet accustomed to working conscientiously for society without payment. In such circumstances, only by implementing the principle of "to each according to his work" can the enthusiasm of all workers be brought into full play. This law, which should have been unquestionable since Marx and Lenin mentioned it long ago, has not been implemented conscientiously in our New China since its founding due to the influence of the "supply system" of the war years and petty-bourgeois egalitarianism.

This "supply system" was not abolished until 1954, when a wage system was introduced in government organizations, state enterprises and public institutions. But in 1958, Zhang Chunqiao advocated restoring the "supply system" and abolishing the wage system. This touched off a debate. By the latter stage of the "Cultural Revolution", the Gang of Four openly opposed, under the guise of criticizing "bourgeois right", the principle of "to each according to his work". Others suggested that a "generally equal but slightly different" wage system be implemented, causing serious ideological confusion. Though the principle of "to each according to his work" was re-established after the overthrow of the Gang of Four, its implementation is by no means easy because egalitarianism still has a market among many people. The current wage system practised in China is rather confusing. After the Third Plenary Session of its Eleventh Central Committee, the Party proposed various measures to carry out the principle of "to each according to his work", pointing out that wages should depend not only on the quantity and quality of each person's work—labour time, labour intensity and the degrees of labour proficiency and complexity—but also on the contribution each person makes to the state, that is, the economic results of his labour. The method of putting into practice the Party's proposal is still under experiment. The problem of labour remuneration to workers in units either under state or collective ownership is rather complicated and needs careful study in both theory and practice. It is necessary for our theoreticians to pay special attention to the law of "to each according to his work", and to discuss how to reform our wage system in the light of the prevailing conditions and how to work out an

appropriate policy regarding labour remuneration in units of collective ownership.

In a country where small-scale peasant economy is predominant, individual economy can pass over to economy under ownership by the whole people only through collective economy. This objective law of socialist economic development is in fact a specific manifestation, in the period of socialism, of the law that the relations of production must conform with the growth level of the productive forces. As the growth level of the productive forces in China is rather low, not only will collective economy exist for a fairly long time but it is necessary to arouse the initiative of those engaged in individual undertakings in the sector under collective economy. It is also necessary for the tens of thousands of small- and medium-sized enterprises under ownership by the whole people to assimilate some of the principles followed by units under collective ownership and to link, to a certain extent, labour remuneration with the enterprises' profits. Long ignorant of this economic law, we often stressed "large size and a high degree of public ownership" in agriculture and were overanxious for transition to a higher level, bringing heavy losses to farm production. At present, handicrafts still exist in the cities and manual operations still exist extensively in certain trades. There is the need to develop a number of units in the collective and individual sectors of the economy. It is wrong to think that collective ownership can be allowed to exist only in rural areas but not in urban areas, or that this economic sector can never be allowed to re-emerge. Also wrong is the idea that, except for the economic sectors under ownership by the whole people and collective ownership, no individual economy -- even a small portion of it -- can be allowed to exist either in cities or the countryside. Neither idea conforms to the law of our socialist economic development.

At the higher stage of communism, the laws peculiar to the period of socialism will cease to function. Having accomplished their historical tasks, they will disappear from the scene of history. But then the law of securing the maximum satisfaction of the ever-growing requirements in the life of the whole people through expanded production on the basis of higher scientific and technological standards will operate on a full scale. The needs of the peo-

ple will grow with expanded production, never to be fully satisfied. Thus the contradiction between social production and social demand will exist forever and become the motive force of the progress of communist society. At the same time, the communist economy will show a much higher degree of planning than we have today. Under a single system of communist ownership by the whole people, it will be relatively easy to use the new computation techniques to control production in the various departments of the national economy and adjust in good time the contradiction between the production of all kinds of social products and the demand for them. The law of planned, proportionate development of the national economy will operate fully on a higher basis than now. Engels said, "It is only from this point that man will himself make his own history fully consciously. It is only from this point that the social causes he sets in motion will preponderantly and ever increasingly have the effects he wills. It is humanity's leap from the realm of necessity into the realm of freedom."<sup>1</sup> Socialism marks the beginning of such a leap; it will be completed under communism.

### 3. ECONOMIC LAWS AND MAN'S INITIATIVE

As mentioned before, objective laws of economic development exist in a socialist society just as they do in other societies. All our economic activities are governed by objective economic laws. Unlike the objective laws of economic development in previous societies, which effected all kinds of changes spontaneously, those in a socialist society are brought into play through the conscious, planned and clearly-aimed activities of the people under the leadership of the Communist Party. If we acquire an accurate understanding of the objective laws of economic development and apply them intelligently, our initiative will play a tremendous role in promoting socio-economic developments. Conversely, if our activi-

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<sup>1</sup>Frederick Engels, *Anti-Dühring*, FLP, Beijing, 1976, p. 367.

ties contravene objective laws, we will be punished and will be forced to adapt our activities to the requirements of these laws.

The socialist transformation of agriculture, handicrafts and capitalist industry and commerce after the founding of New China was carried out in a planned way under the leadership of the Communist Party and the People's Government. We achieved tremendous successes by correctly applying the objective economic laws of socialism and those of capitalism. In transforming capitalist industry and commerce, we relied on the might of the socialist state sector of the economy, controlled the circulation of money, seized leadership over the market through a struggle to stabilize prices and, having taken the supply of raw and semi-finished materials and the sales of commodities into our hands, directed the capitalist enterprises into the orbit of state capitalism by making them work on government orders. In the relations between the state and private sectors, while giving full play to the leading role of the state sector, we correctly applied the economic laws of capitalism and guaranteed the profits due the capitalists. The state sector was highly concentrated whereas the private sector was scattered. The workers and staff in state enterprises displayed much higher enthusiasm than those in private ones. Giving full play to the socialist state sector, we were able to triumph over capitalism through competition. Our work proceeded smoothly on this front.

In transforming agriculture and the handicrafts, we made full use of the role of the law of value and the market, placing the individual peasants and handicraftsmen under the leadership of the state sector of the economy and gearing most of their production to the state plan. As for the small-scale peasant economy, we first mobilized the peasants for land reform, thoroughly destroying the rule of the landlords and rich peasants, abolishing feudal land ownership, and distributing land among the peasants. Through the establishment of agricultural co-operatives, we helped peasants overcome the difficulties resulting from the scattered nature of the small-scale peasant economy. With peasants accustomed to being small producers, we persevered in the principle of voluntary participation and mutual benefit in the course of setting up co-operatives, proceeding step by step from mutual aid teams to

elementary co-operatives and then to advanced co-operatives. Thus our work on this front went on fairly smoothly. After the co-operatives were established universally, however, many of our comrades overlooked the law that the relations of production must conform with the growth of productive forces and made the mistake of making rash advances in setting up rural people's communes in 1958. Only after readjustments were the relations of production basically brought into conformity with the productive forces and agricultural production rehabilitated and expanded. The advances and retreats were both effected through the policies and decrees of the Party and the government, but it was the objective laws of economic development that played a decisive role behind these policies and decrees.

In 1953, China launched its First Five-Year Plan of socialist economic construction. The ratio between accumulation and consumption and the proportions between the various departments of the national economy worked out at the time were relatively correct. We undertook 156 key projects and laid an initial basis for industrialization. During the period of the 1st FYP, as we basically observed the law of planned, proportionate development of the national economy, our work proceeded fairly smoothly. From 1958 to 1960, however, we set excessive targets for the growth of industrial and agricultural production. In particular, it was unrealistic to demand that steel output be doubled in a year and some branches of heavy industry be developed at a corresponding rate. Consequently, agriculture and light industry were relegated to a secondary position. Between 1959 and 1961, farm output dropped year after year, disproportions surfaced in the national economy and the people had to cope with hard times. The Central Committee of the Party advanced a policy of "readjustment, consolidation, filling-out and raising the standards". Drastic steps were taken to curtail capital construction and heavy industrial production. In the next three years, the proportions between agriculture, light industry and heavy industry were readjusted, and so was the ratio between accumulation and consumption, leading to an all-round turn for the better in the national economy. Experience shows that only when we respect objective economic laws can we achieve positive results through initiative.



In a socialist country, the distribution and exchange of social products are also conducted largely through national economic planning. The state sets the ratio between the accumulation fund and the consumption fund, works out the wage scales for the workers and staff in state offices and enterprises, formulates the policies of distribution within the collective sector of the economy and among the collective peasants, and sees to it that the life of workers and peasants improves step by step on the basis of rising production. In the final analysis, both distribution and the people's life depend on production. On the other hand, a distribution policy also reacts on production. The first eight years after the founding of New China saw a steady improvement in the life of workers and peasants amidst the rapid growth of industrial and agricultural production. Beginning in 1958, violation of objective laws of economic development in some years, and the interference and sabotage by the Lin Biao and Jiang Qing counter-revolutionary cliques in the "Cultural Revolution" accounted for the slumps in industrial and agricultural production and the negligible rise in living standards for workers and peasants. In distribution, we contradicted the principle of "to each according to his work", used too much rural manpower without compensation, and purchased too much farm produce from the peasants. All this caused a drop in the labour enthusiasm of the workers and peasants and put brakes on industrial and agricultural development. Facts show that we do not know enough about the law of "developing production and satisfying the people's needs", which is essentially the "basic economic law of socialism" defined by Stalin, nor about the law of "to each according to his work". This problem was not gradually solved until after the Third Plenary Session of the Party's Eleventh Central Committee, when the "Left" errors long existing in our economic work were corrected and the principle of "readjusting, restructuring, consolidating and improving" the national economy was implemented.

In the past twenty years or so, we have acted with too little knowledge about the law of value. We laid stress on the role of the law of planned, proportionate development of the national economy but attached little importance to the role of the law of value. We failed to see that in a socialist society, particularly in

one like our own where the level of productive forces remains low, we have to seek the help of the law of value in our national economic planning. But we exercised a rigid control over the national economy and failed to make good use of the law of value. Thus the prices of many products vary far from their values. Important products badly needed by the state are tightly controlled and priced low, while secondary products beyond state control are priced high and yield much profit. This affects a proportionate development of the various departments of the national economy. The remedy is to be found in a readjustment of prices through a full utilization of the role of the law of value, which will facilitate a balanced economic development, and not in an extension of compulsory state purchases and of rationing, which means a further restriction of the role of the law of value.

The above shows that our knowledge of the economic laws of socialism is far from adequate and we often act against objective laws, which make it impossible to bring the superiority of the socialist system into full play. The economic laws of socialism operate in a way different from those of capitalism. Instead of functioning spontaneously beyond man's will, they operate through man's conscious activity. Precisely because of this, it is all the more necessary for us to study the objective laws governing socialist economic development and learn to act in accordance with them.

Here it may be added that, when we speak of the spontaneous manner in which economic activities in capitalist countries are regulated by objective economic laws, we are contrasting it to its role in socialist countries. In the stage of non-monopoly capitalism in the 18th and 19th centuries, bourgeois economists advocated *laissez-faire* and opposed intervention by the state and all economic activities were regulated spontaneously by the economic laws of capitalism. In the era of monopoly capitalism, the basic contradiction of capitalism sharpened and led to the unprecedented economic crisis in the 1930s which proclaimed the bankruptcy of *laissez-faire*. The monopoly bourgeoisie began to advocate state intervention in economic activities. To compete with one another and avert or cushion economic crises, the monopoly capitalists not only made use of market forecasts on a wide scale but also

appealed to the state for "regulation" of the economy. Since the Second World War, the capitalist countries have used taxation as a means of adjusting commodity prices. In particular, they have been guiding the orientation of investment by monopoly capitalist groups through the credit policies of the banks. Thus state intervention is playing an increasingly important role in these countries. Of course, the capitalist countries can never free themselves from the basic contradiction of capitalism, eliminate the polarization between the bourgeoisie and the proletariat, or get rid of the cyclical economic crises, because the means of production are privately owned and all the economic activities of monopoly capital are designed to grab the maximum profit.

In China, much importance was attached to the study of the economic laws of socialism following the publication of Stalin's *Economic Problems of Socialism in the U.S.S.R.* But we were more or less influenced by certain metaphysical views and oversimplified the socialist relations of production, believing that all economic activities in the country could be controlled through state planning, and that the role of the law of value was confined to business accounting and the marketing of consumer goods, playing no regulatory role in production. During the "Cultural Revolution," the Lin Biao and Jiang Qing counter-revolutionary cliques went all out to push "politics" which disrupted the economy and a "revolution" which rejected production. They negated the principle of "to each according to his work" and the law of value. In those days it was taboo to discuss the economic laws of socialism, and research in this field dropped from its original level. In the meantime, our economic management also deviated from the economic laws of socialism by varying degrees. At one time, it was believed that anything could be accomplished at the will of those in authority.

Our task is to acquire an accurate knowledge of the objective laws governing socialist economic development towards accelerating the socialist modernization of our national economy and consolidating and developing our socialist relations of production. This is a question to which our economic theoreticians and administrators should devote much attention. To solve this question, we must study Marxism-Leninism assiduously, analyse the positive

and negative experience in socialist revolution and construction in China and other socialist countries, integrate theory with practice and particularly with the new tasks in China's new historical period, do much investigation and research, and further study and deepen our understanding of the socialist economic laws and how they operate under the historical conditions in China. Only thus can we contribute our share to the accelerated realization of the four modernizations and to the consolidation and further development of the socialist relations of production.

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