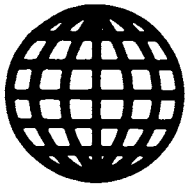


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# ***JPRS Report***

# **China**

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***RED FLAG***

No 4, 16 February 1988



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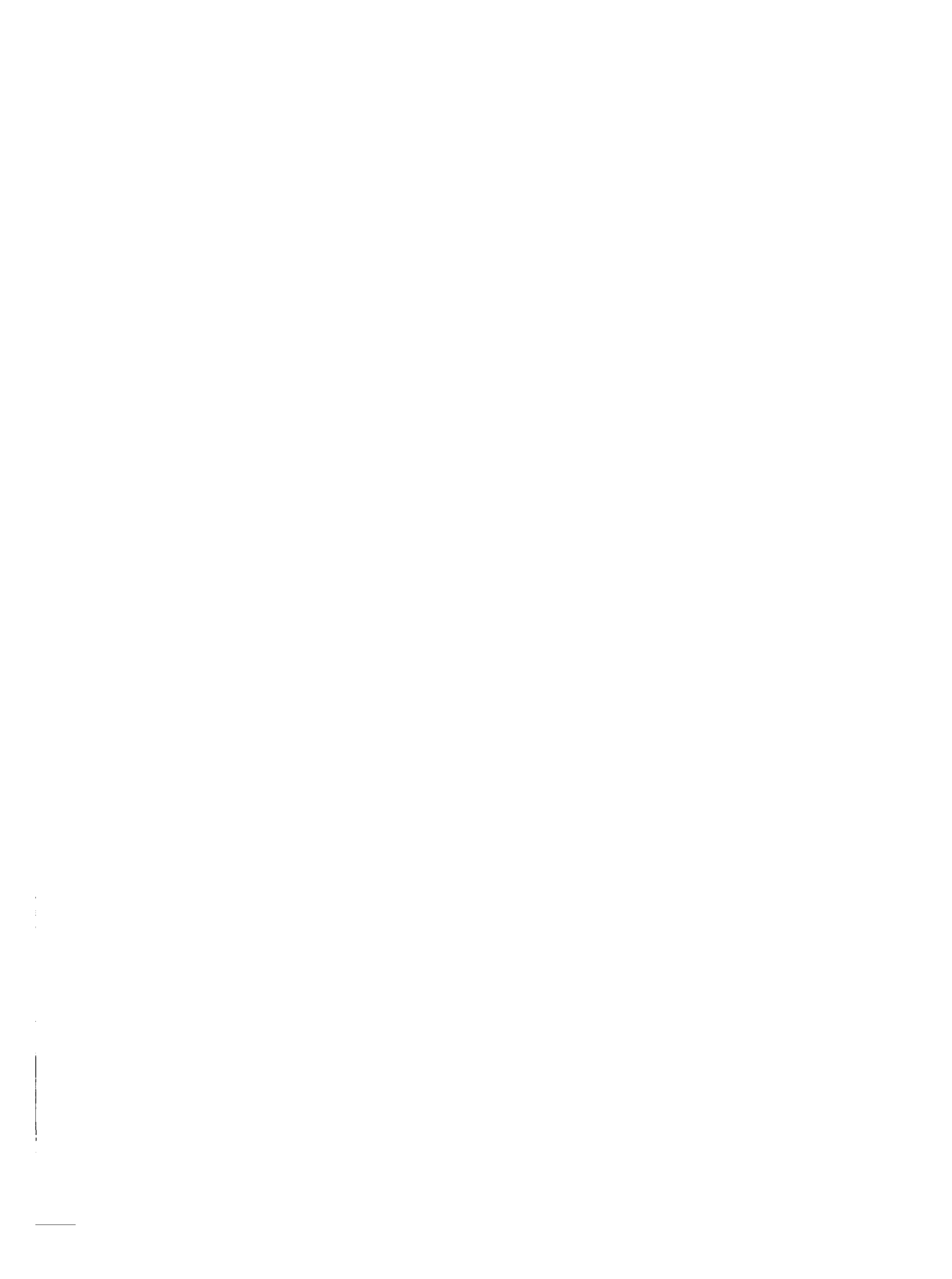
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## RED FLAG

### **The Present Tasks Regarding Ideological and Political Work in Enterprises**

*HK150820 Beijing HONGQI [RED FLAG] in Chinese No 4, 16 Feb 88 pp 2-8*

[Speech by Rui Xingwen given at the annual meeting of the Chinese Workers' Study Society for Ideological and Political Work on 19 January 1988—with some additions and deletions by the author]

[Text] Given the separation of party and government work and the institution of the plant director responsibility system, a new subject which is facing us and which the whole party should study conscientiously is how to make a success of ideological and political work in enterprises. It is of great significance for the Chinese Workers' Study Society for Ideological and Political Work to hold an annual meeting to study this subject. I attended the annual meeting with the aim of learning from theoretical and practical workers doing ideological and political work and, at the same time, of airing my views on two aspects of the problem and exchanging views with all comrades.

#### **1. A Primary Task Regarding the Current Ideological and Political Work in Enterprises Is To Promote the Publicity, Study, and Implementation of the Party's Basic Line**

The report to the 13th party congress is a programmatic document of the party. It combines the basic tenets of Marxism with our national conditions and scientifically and systematically expounds the theory of the initial stage of socialism. Moreover, taking this as the line of reasoning, it puts forward the party's basic line during the initial stage of socialism, namely: "To lead the people of all our nationalities in a united, self-reliant, and pioneering effort to turn China into a prosperous, strong, democratic, culturally advanced, and modern socialist country by making economic development our central task, while adhering to the four cardinal principles and persevering in reform and the open policy." The party's basic line is the only correct line guiding our country toward socialist modernization. It is a Marxist, scientific line which has been proved in practice over the past 9 years. It is in keeping with our national conditions and can make our country and people rich and prosperous. It represents the greatest aspirations and fundamental interests of the broad masses of the people and, naturally, of the vast numbers of enterprise workers and staff members. In China, the advanced productive forces are concentrated chiefly in cities and enterprises. They are linked to the vast numbers of workers and staff members. Whether we can bring into play the initiative and creativity of enterprise workers and staff members has a direct bearing on the success or failure of construction and reform. Therefore, our primary task in carrying out ideological and political work in enterprises is to conduct

publicity and education in the party's basic line thoroughly and in a sustained way and, through correct explanations and expositions, to achieve unity of thinking, to unify forces, and to mobilize and inspire the workers and staff members so that the party's basic line can become their conscious actions.

In studying and implementing the spirit of the 13th party congress, it is necessary to stress further emancipation of the mind and further development of the productive forces. Comrade Deng Xiaoping recently said: The 13th CPC National Congress has further emancipated the minds of the party and the people and will further emancipate the productive forces. Comrade Zhao Ziyang also pointed out: In studying the documents of the 13th party congress, the focus should be placed on further emancipation of the mind because only by emancipating the mind is it possible to further enhance our consciousness to carry out the line of the 13th party congress. With the in-depth development of reform and the open policy, many new conditions and questions will constantly emerge. In answering these questions, we do not have ready-made book conclusions from which to copy. Only under the guidance of Marxism and by proceeding from reality, emancipating the mind, and conducting explorations boldly can we find scientific answers to them. Practice since the 3d Plenary Session of the 11th CPC Central Committee has proved that, to push forward and deepen the reform, further efforts should be made to emancipate the mind. The theory on the initial stage of socialism is the scientific summation and theoretical distillation of our practical experience in socialist construction and reform and has provided us with an ideological weapon to further emancipate the mind and further develop the productive forces. It enables the comrades daring to practice to be more at ease and the comrades adopting a sceptical attitude to strengthen their confidence and to enhance their reform consciousness. Undoubtedly, this will stimulate vigorously further emancipation of the mind and further development of the productive forces.

We should integrate the study and implementation of the spirit of the 13th party congress with our present work and ideological reality. This is crucial to further emancipation of the mind and further development of the productive forces.

In the process of speeding up and deepening the reform following the 13th party congress, we shall face a series of major issues in our practical work. For example, what development strategies and specific measures should the coastal areas and the hinterland adopt in light of changes in the current international economic situation? How should scientific and technological advances cater to the needs of economic construction and how should the latter rely on the former? What should we do to further deepen the rural reform and arouse the initiative of the vast numbers of peasants in developing the commodity economy? How can macroeconomic regulation suit the development of agricultural production? What should we do to separate enterprise ownership from the power

of operation, to genuinely extend enterprise decision-making power, and to attain better economic results? How is the private economy to be managed? The solution of these questions depends on further emancipation of the mind and on innovation and pioneering work. Only in this way can the spirit of the 13th party congress be implemented, the reform be deepened, and the productive forces be further developed.

Here I would like to concentrate on discussing several questions of ideological understanding in the course of studying the documents of the 13th party congress.

Some time ago, we scored successes in studying and publicizing the party's basic line in enterprises. In light of their own experience, the vast numbers of workers and staff members reviewed China's tremendous achievements in reform, opening up, and socialist construction over the past 9 years and studied the theory on the initial stage of socialism. All of them felt that the blueprint for the party's basic line, the economic development strategy, and the economic and political restructuring formulated on the basis of this theory is not only magnificent but also feasible. They have a clearer direction on building socialism with Chinese characteristics and firmer confidence in reform and the open policy, and they are bringing forth their enthusiasm, wisdom, and drive for socialist construction and reform. In the course of study, however, there are also some hazy views. Summed up, they can be divided into two categories: The first is people's understanding of the situation, and the second is people's understanding of the theory on the initial stage of socialism.

These hazy views of the situation are due primarily to problems in commodity prices, the rationing of meat and eggs in big cities, party style, and social distribution. Some people have doubts and misgivings. They are even doubtful about the excellent situation and the correctness of reform and the open policy. With regard to these issues, it is necessary to make a concrete analysis, to give an explanation in a down-to-earth manner, and to guide people to a correct understanding.

Take commodity prices as an example. They have risen considerably over the past 2 years, reaching an average of 7.2 percent in 1987. The price rises are reflected chiefly in food prices (food accounts for 4.7 of the 7.2 percentage points). The food problem is due to fluctuations in production rather than the overall production development. This is because, although the rural areas are practicing commodity economy, we still often use conventional administrative means to deal with agriculture instead of using the law of value to guide agriculture. Therefore, a primary issue today is how to use the law of value to guide agriculture and solve the problem of fluctuations in production. The state has now attached great importance to the food problem. It is working out a policy which is not only conducive to the development of production but also gives the masses proper compensation in their livelihood. It should also be noted that the

situation now is different from what it was during the 3 difficult years. It does not come from a sagging economy but from a constantly developing economy. The economic situation was fairly good last year. First, it was reflected in our success in attaining fairly rapid and sound development. The total industrial output value was 1,031.1 billion yuan, an increase of 14.6 percent. It was a fairly high speed and there was no overheating. It did not rely on large quantities of imported raw materials and the assembling of parts as was the case 2 years ago. The growth rate was also balanced, increasing 15 percent in the first half of the year and 14.3 percent in the second half. The structure was also rational. The power industry and the raw materials industry, which serve as the basic industries, grew by 10.7 and 13.8 percent respectively. In addition, our products had a good market, exports outpaced imports, the economic results were quite satisfactory, and the growth of profits and taxes and the rise in productivity were better than originally planned. The agricultural situation was also fine. The total output value rose by about 4 percent and the total grain output exceeded 400 million tons, an increase of 10 million tons over the previous year. Though steady, the grain price dropped a little. The total cotton output was over 80 million dan, an increase of over 10 million dan over the previous year. Nonagricultural production in the rural areas rose more than 19 percent over the previous year.

Another manifestation of the fine economic situation last year was that some strained factors, which had restricted the development of the national economy for a long time—principally excessive issuance of banknotes, excessive scale of construction, swelling consumption funds, and so on, tended to ease. This showed that the macroeconomic control mechanism had given scope to its positive role. More important, we found last year a path which could invigorate the microeconomy continuously and strengthen macroeconomic control simultaneously. This is a valuable experience which will play an important role in stabilizing the economy and deepening the reform in the future.

In truth, the price problem is an old one. In the past, we formed long lines when purchasing goods and practiced rationing for a long time. This is also a kind of price rise, although the form of manifestation is different. Prices can be kept under control by simple administrative means. But practice over the years has proved that this is detrimental to production development and market invigoration. In developing socialist commodity economy, straightening out the pricing system is an important but extremely complicated task. At present, the phenomenon of finished products and manufactured goods being cheaper than raw materials and agricultural and sideline products is still conspicuous. This is detrimental to economic development. In the operation of socialist commodity economy, commodity prices are bound to be changed and adjusted. This is independent of man's will. Naturally, we should also consider the capacity of the masses to withstand the strains. It should be conducted

in a planned and systematic way. Every effort should be made to minimize the effect of price rises on the livelihood of the masses. With regard to such practices as engaging in speculation and profiteering and driving up prices, we must oppose them resolutely and put a stop to them. Meanwhile, we should strengthen price supervision and management.

From a long-term point of view, the fundamental way to solve the question of rationing pork, eggs, and other agricultural and sideline products in big cities lies in guiding agriculture with the law of value, further deepening the rural reform, setting up modern hog-raising and chicken-raising bases, carrying out scale operations and scientific operations, increasing output, reducing consumption, and raising productivity. In some coastal, rural areas, while rural laborers are speeding up nonagricultural production, agriculture is also developing toward large-scale, scientific production and modernization. Output is increasing and costs are also decreasing relatively. We are greatly inspired by this. Moreover, we should dovetail the relations between production and marketing (in recent years there have been instances of people sometimes finding it difficult to sell pork and eggs and of pork and eggs sometimes being in short supply) so that there is a long-term, stable relationship between production and marketing. We should also guide people's consumption correctly and improve their dietary pattern. China has 1.06 billion people but only 1.5 mu of cultivated land per capita. To reach a moderate level of prosperity and the level of countries with intermediate development, agriculture will be a long-standing restrictive factor. We are now considering overall, long-term measures.

The question of party style should also be placed on a scientific basis and analyzed in a down-to-earth manner. On the one hand, we should note that there are indeed unhealthy practices in the party, some of which are fairly serious. We must attach importance to them and solve them. On the other hand, many rumors in society are indeed exaggerated or fabricated. The reform has brought a new lease on life to our state and nation. Positive changes have taken place in the spiritual and moral outlook of society as a whole. The party's ideological style of seeking truth from facts has been strengthened greatly. And the creativity of the party and the masses has been brought into play. Without the vast numbers of Communist Party members who, with their own exemplary acts, unite and lead the masses on all fronts to work indefatigably, it would have been impossible to score such successes in reform and construction today. It should also be noted, however, that given the reform and the open policy, certain unhealthy practices in society will inevitably be reflected in the party. In the course of replacing the old structure with the new and given the imperfect legal system, the lack of coordination among various policies, and the imperfect regulatory mechanisms, various unhealthy tendencies will take advantage of this opportunity to multiply. This is not at all surprising. For this reason, it is all the more necessary

for us to step up education among party members and enforce party discipline. It is necessary to adopt the principle of expelling corrupt elements resolutely within the party. As soon as we find them, we should deal with them immediately. Under no circumstances should we be indulgent toward them. We cannot depart from reform and the open policy in observing and analyzing the question of party style, nor can we depart from reform and the open policy in handling it correctly. Only by deepening the reform, creating the environment or opportunity for equal competition, and strengthening democratic supervision and management by the masses will it be possible to gradually solve the problem of unhealthy practices in the party. For example, there is a close relationship between solving the question of people taking advantage of their positions and powers to seek personal gain in housing and personnel matters and the commercialization of housing and the institution of the system of government functionaries. In short, the question of strengthening the building of a fine party style can only be gradually solved by deepening the reform and strictly administering the party.

At present, some people are querulous, saying that in terms of social distribution, ownership by the whole people is inferior to collective ownership and collective ownership is inferior to individual ownership. There is indeed such a phenomenon today. However, this is by no means the aim of our reform. Our principle is distribution according to work and common prosperity. Following the reform of the economic structure and the invigoration of the economy, the income of the great majority of the people has increased in varying degrees. However, due to different conditions and uneven development, it has increased faster and more in some localities and among some people; it has increased more slowly and less among some others. In recent years, the individual economy has developed quite rapidly and quite a few people have prospered. There are problems of irrational distribution due to imperfect systems or methods. There are also a handful of people who become rich by tax evasion or by illegal means. This makes it necessary for us to establish and amplify various systems. Our approach is: On the one hand, we should not refrain from doing something necessary or negate the party's policy toward the individual economy just because of some negative factors; on the other hand, we should also amplify the legal system, market management, taxation, and the pricing system to solve the problems and negative factors in economic activities. Moreover, we should further intensify enterprise reform, fully invigorate the enterprises, attain better economic results, and improve the remuneration of workers and staff members so that our social distribution can gradually become rational.

In short, the question of commodity prices, the rationing of some agricultural and sideline products, and the questions of party style and of distribution, which have emerged in the course of reform, should also be solved by further intensifying the reform.

People's hazy views on the theory of the initial stage of socialism are chiefly concentrated on two points: One holds that the theory of the initial stage of socialism is a retrogressive theory which has placed us farther away from communism. In retrospect, the line, principles, and policies since the 3d Plenary Session of the 11th CPC Central Committee have been successful precisely because we have discarded the previous "leftist" practices of the late 1950's and the "Great Cultural Revolution." The tremendous successes show that our reform has been successful, but we have not been able to make it clear in terms of theory. The great contribution of the 13th party congress lies precisely in the fact that it has found a scientific basis for our reform, namely, the theory on the initial stage of socialism. This represents a new leap in our understanding. It conforms to our national conditions and has enriched and developed Marxist theory. Undoubtedly, this is not retrogression but progress. The founding of the initial stage theory shows that our construction and reform have entered a more conscious stage. It has solved the question of achieving socialist modernization in such a big country as ours with a backward economy. Moreover, we should prevent the tendency of vulgarizing and abusing the initial stage theory. We should not turn the "initial stage" into a pretext to relax the building of spiritual civilization and to legalize all negative phenomena. It is absolutely necessary to keep in mind the two aspects to the initial stage of socialism pointed out in the report to the 13th party congress, namely: "First, Chinese society is already a socialist society. We must persevere in socialism and never deviate from it. Second, China's socialist society is still in its initial stage." We should support forcefully things conducive to the development of the productive forces and oppose, just as forcefully, the decadent feudal and capitalist ideas and the ugly phenomena in society.

The other view holds that "the initial stage theory actually covers up the practice of capitalism." This view is obviously wrong. The party's basic line is "one central task and two basic points." In the course of reform and opening up, we have repeatedly stressed the need to uphold the four cardinal principles to ensure the sound development of reform and opening up along the socialist orientation; while upholding the four cardinal principles, we have repeatedly stressed that we should not depart from the general principle of reform and opening up. Our reform practice over the past 9 years is precisely like this. In the rural areas we have instituted the system of contracted responsibility on a household basis, with remuneration linked to output, carried forward the rural reform, and discarded the outdated pattern of "being large in size and collective in nature," but we have never wavered on the question of public ownership of land. In enterprises we have separated ownership from the power of operation and discarded the outdated pattern of the state directly operating enterprises, but we have never wavered on the nature of ownership by the whole people. We have developed diversified economic sectors and discarded the unitary ownership structure, but we have

never wavered on the leading position of public ownership. We have practiced numerous forms of distribution and discarded the egalitarian practice of everybody eating from the same big pot, enabling a number of people to get rich ahead of others, but we have never wavered on the principle of distribution according to work and the objective of common prosperity. We allow joint ventures and enterprises operated wholly with foreign capital, but we have never wavered on the questions of socialist state sovereignty and the leading position of the socialist economy. We can thus see that the concept of regarding the initial stage theory as covering up the practice of capitalism is untenable and that there is no need to entertain such misgivings.

Naturally, in addition to what I have mentioned above, there will also be other ideological issues and hazy views, which I cannot discuss here one by one. It is hoped that the comrades engaging in ideological and political work in enterprises will solve the hazy views and problems of understanding in light of the practical ideas of the masses, promote the emancipation of the mind and the development of the productive forces, constantly push forward the study and implementation of the spirit of the 13th party congress, and attain good results.

## **2. Conscientiously Make a Success of Ideological and Political Work in Enterprises Under the Condition of Separating Party and Government Work**

The 13th party congress has placed reform of the political structure on the agenda of the whole party and explicitly pointed out: "The key to the reform of the political structure is, first and foremost, the separation of party and government work." In line with the plan of the party Central Committee, the focus of the whole party this year is to make a success of the reform of the leadership structure in industrial enterprises under ownership by the whole people. Given the separation of party and government work and the all-round institution of the plant director responsibility system, what should we do to step up ideological and political work in enterprises?

First, it is necessary to solve problems of ideological understanding and make clear the necessity and importance of separating party and government work, instituting the plant director responsibility system, and conducting reform of the enterprise leadership structure. Only when we have a profound and unified understanding of this issue can we study consciously the new situation and methods and improve and step up ideological and political work in enterprises following the separation of party and government work.

Separating party and government work is a major measure which our party has adopted under the new historical conditions with the aim of improving and strengthening party leadership. It is also an objective requirement of the in-depth development of economic restructuring. The existing political structure in our



country emerged from the revolutionary war years and was established basically in the period of socialist transformation. It has developed in large-scale mass movements and in the course of enforcing mandatory planning constantly. It is not in keeping with the economic, political, and cultural modernization drive carried out under peaceful conditions and the development of the socialist modernization drive. Under the previous product economy, it was still barely possible for enterprises to exercise centralized party leadership. Today, with the separation of the functions of government from those of enterprises and the separation of ownership from the power of operation, enterprises under ownership by the whole people carry out independent operations and assume sole responsibility for profits and losses in various ways, such as contracted management, leasing, and the joint-stock system. For this reason, enterprise directors (managers) must be the representatives of the enterprise legal entities. They must occupy a central position and play a central role. This change determines that it is no longer possible for enterprises to implement the previous centralized party leadership system or method. They must separate party and government work and institute the plant director responsibility system. In August 1980, in his important speech "On the Reform of the System of Party and State Leadership," Comrade Deng Xiaoping pointed out: It is necessary to "change, after good preparations and in a planned way, the system of plant director responsibility under the leadership of the party committee." In his article: "The Immediate Task of Soviet Government," Lenin also pointed out: "Large-scale machine industry—which is precisely the material source, the productive source, the foundation of socialism—calls for absolute and strict unity of will, which directs the joint labors of hundreds, thousands, and tens of thousands of people.... But how can strict unity of will be ensured? By thousands subordinating their will to the will of one." ("Selected Works of Lenin," Vol 3, pp 520-521) Changing the leadership structure in line with the changed situation and task is a specific manifestation of the vigorous development of the socialist modernization undertaking. Party committees at all levels, particularly comrades of enterprise party organizations, must understand this fully.

Many comrades are worried whether party leadership over enterprises, as well as ideological and political work in enterprises, will be weakened following the separation of party work from government work. Party leadership is political leadership and enterprises reflect party leadership by carrying out the principles and policies of the party and state. By turning over the power of operation to plant directors, who take full charge in line with party principles and policies, the party organizations can transfer some hands to strengthen party building, to manage the party well, and to exercise effective supervision. In my view, this is more favorable to the party's cause. As for ideological and political work in enterprises, not only should it not be weakened, but it should be further strengthened. Ideological and political work among workers and staff members is not something that

can be dispensed with but a very important aspect of the management of modern enterprises. In addition to political work cadres, the vast numbers of party members, CYL members, and administrative cadres should engage in ideological and political work. This provides a favorable condition for strengthening ideological and political work. Ideological and political work is the joint task of enterprise operators and party organizations. It should also be coordinated closely by the organizations of workers, youths, and women in enterprises. We should not hold in an oversimplified way that, so long as party work is separated from government work, ideological and political work in enterprises can strengthen spontaneously. This is a one-sided and harmful view.

Second, we should make a success of regular ideological and political work. This can generally be divided into three main aspects: 1) Ideological and political work in enterprises should ensure the smooth progress of reform and opening up. Comrade Zhao Ziyang said: We should approach the overall situation from the angle of reform. When conducting ideological and political work in enterprises, we should act according to this spirit. Following the separation of ownership from the power of operation, the all-round institution of the plant director responsibility system, and the implementation and improvement of various forms of the contract system, the enterprises will face many practical problems naturally, as well as many ideological problems. In solving these problems, in addition to relying on the coordination of policies and regulation by economic, administrative, and legal means, we should also conduct thoroughgoing and painstaking ideological and political work. Through ideological and political work we should enable the vast numbers of workers and staff members to have a better understanding of the reform, to enhance their reform consciousness, and thus to plunge into the reform vigorously and enthusiastically. 2) Ideological and political work in enterprises should be centered on the development of the productive forces and the improvement of enterprise economic results. Efforts should be made to change the phenomenon of ideological and political work being divorced from economic work and to ensure the smooth progress of the enterprise production and economic activities. 3) Efforts should be made to train a contingent of workers and staff members "with lofty ideals, moral integrity, education, and a sense of discipline." It is necessary to step up the building of socialist spiritual civilization in enterprises vigorously, to conduct education in patriotism, collectivism, and socialism among workers and staff members, to encourage and cultivate an enterprising spirit of enterprise and professional ethics, and to raise their capability to resist decadent feudal and capitalist ideas.

Third, it is necessary to take "let the people know" as a principle for ideological and political work in the new period. By combining work inside and outside the meeting and utilizing publicity and the new media, the 13th party congress has let the people promptly understand and grasp the main spirit of the congress. In particular, in

answering many important questions raised by Chinese and foreign reporters, Zhao Ziyang and other comrades have enabled the masses of the people to understand the truth behind the policies and policy decisions of the party Central Committee regarding these issues. The reaction is very good. Recently, the Political Bureau of the CPC Central Committee again decided to let the whole people discuss the "PRC Law on Industrial Enterprises Under Ownership by the Whole People (Draft)" and then submit it to the NPC for approval. These practices have reflected fully the spirit of "letting the people know." This is a continuation and development of the glorious tradition of, and the historical experience in, following the mass line in the new period. When conducting ideological and political work in enterprises, we must carry out the spirit of "letting the people know." It is necessary to establish the system of democratic consultation and dialogue in enterprises. Plant directors and secretaries, as well as the organizations of workers, youths, and women should all do this according to their own special characteristics. We should promptly let the workers and staff members know about major party and state matters within a certain period. Particularly when a certain major reform or measure is being worked out, we should let the workers and staff members know the decisionmaking process, understand why it is necessary to do so and what problems and difficulties still exist, and thus plunge consciously into various reforms. Such ideological and political work has vitality.

Fourth, it is necessary to explore and sum up new patterns and new methods for conducting ideological and political work in enterprises in the new period. Since conditions in various localities and enterprises are different, we should provide special institutions and personnel for ideological and political work in light of local conditions and proceed from specific conditions. So long as it is conducive to the development of productive forces in enterprises and the building of the two civilizations and helps arouse the enthusiasm of workers and staff members for construction and reform and so long as it conforms to the principle of streamlining and efficiency, we should allow people to make explorations and experiments.

Enterprises under ownership by the whole people should carry out separation of party and government work unswervingly and energetically and institute the plant director responsibility system. However, far from carrying them out in an oversimplified way and rushing headlong into mass action, we should proceed from reality and coordinate all the work satisfactorily. Attention should be paid to arousing the enthusiasm of political work cadres for reform of the political structure in enterprises. The vast numbers of political work cadres are one of the reliable contingents of the party. They have not only made great contributions in the past but have also done much to ensure the smooth progress of reform and opening up since the 3d Plenary Session of the 11th CPC Central Committee, such as publicizing

and implementing the party's line, principles, and policies energetically. Year in, year out many comrades have immersed themselves quietly in work without being upset by criticism. Their work has been fruitful. When publicizing separation of party and government work in the future, we should pay special attention to this problem. Not only should we explain clearly the reasons behind the separation of party and government work, but on no account should we depress them. In this way, we can make all people shift more consciously and cheerfully to the new track of ideological and political work.

The 13th party congress has pointed out the way to carry out ideological and political work in the new period. As long as the vast numbers of enterprise cadres, workers, and staff members throughout the country make further efforts to emancipate their minds in light of the spirit of the 13th party congress and advance by exploring new ground, they will certainly be able to push ideological and political work under the new historical conditions to a brand-new stage.

#### **Reform the Party Leadership System and Strengthen the Party Leadership**

*HK160731 Beijing HONGQI [RED FLAG] in Chinese No 4, 16 Feb 88 pp 9-13*

[Article by Chen Xiaoping [7115 1420 1627], Zhao Fengtian [6392 0023 3944], and Deng Yun [6772 6663]]

[Text] The report to the 13th CPC National Congress points out: "Under the new circumstances, only by improving the party's leadership system, method, and style can we strengthen the role of party leadership." It is an important task for the whole party and a reliable guarantee for further strengthening the party leadership.

#### **Separating the Party From Government and Defining Their Respective Functions**

In recent years, we have done a lot to improve the party leadership, and have achieved certain results. However, the problems of the failure to separate the party from government, and of the party being substituted for the government have not been completely solved. The main reason for this is that we fail to distinguish between the functions of the party, government, economic organizations, and mass organizations.

Is it necessary to make a clear distinction between the functions of the party and government institutions? This is an important theoretical issue. It is also our starting point for solving the problem of the failure to separate the party from government. In accordance with the Marxist theories on state and political parties, Comrade Deng Xiaoping explicitly points out: The party organization is neither government nor organ of state power. The report to the 13th CPC National Congress further expounds on this. It stresses: "The nature of the party is different from that of the organ of state power. They

have different functions, and different organizational forms, and adopt different working methods. Efforts must be made to reform the party leadership system, and to make a distinction between the function of the party organization and that of the organs of state power." Specifically speaking, the organs of state power, which are based on violence and coercion, are a tool of the ruling class. They rely on a series of systems of state machinery to carry out their activities in the fields of politics, economy, diplomacy, legislation, judicature, administration, military, culture, education, and so on. This is not the case with the party. It is neither an organization of state power which issues orders to the masses nor an administrative, economic organization. It is a political organization which is voluntarily formed by the advanced elements of the working class, and a representative of the overall and fundamental interests of the entire laboring people. Therefore, political parties and organs of state power are two social organizations with different natures, although they are related. This is the fundamental reason why the party should be separated from the government.

On the basis of summing up historical experiences, the report to the 13th CPC National Congress stresses that the most important task of the political structural reform is to separate the party from government. In other words, efforts must be made to correctly define the different functions of the party, organs of state power, and various social organizations. The main function of the party as a political organization, which leads our socialist cause, is to exercise political leadership. In other words, it should mainly deal with such matters as political principle, political orientation, leadership over the work involving important policy decisions, recommendation of important cadres to the organs of state power, and so on. Relationships between the party, organs of state power, and other nonparty organizations are relationships based on political leadership. They are not relationships of consecutive subordination between those in higher and those in lower positions of responsibility. Neither are they based on ideological coercion. The party organization should not directly govern the state, or social and economic affairs. It should not do everything on behalf of the mass organizations and other nonparty organizations. Leaders of the state organs should not be replaced by leaders of the party organization when they are exercising state power. Neither should leaders of enterprises and institutions be replaced by party leaders when they are exercising leadership over production and business. With regard to work within the functions and powers of the government, the State Council and governments at all levels should discuss it, make decisions, and issue documents. It is not suitable for the party Central Committee or party committees at all levels to issue instructions, or to make any decisions. The functions of the party and various mass organizations should also be defined. The party is a faithful representative of the basic interests of various trades and services, and people in various strata. Under the prerequisite that their basic interests are identical, various trades and

services and people in various strata have different specific interests. Therefore, we should give play to the role of the mass organizations, so that they can more effectively reflect and defend the specific interests of the masses whom they represent.

Of course, the conditions of the central authorities are different from those of localities and grass-roots units. Under the prerequisite of separating the party from the government, the functions of party organizations at all levels are different from those of the administrative organizations. Mutual relations between party organizations are also different from those between administrative organizations. The party Central Committee as the highest leading organ of the ruling party should study and formulate important guiding principles and policies of national significance, recommend people to take the posts of the highest leading organs of the state, and exercise general leadership over work in various aspects. Localities are organizations under the leadership of the central authorities. Local party organizations and administrative organizations should regard the implementation of the line, guiding principles, and policies of the central authorities, and the unity of the policies and orders of the state as their main functions. Under such a prerequisite, local party organizations should exercise political leadership over various work in their localities, and study and formulate their local guiding principles and policies. Grass-roots party committees in enterprises and institutes which implement the responsibility system of senior administrative officers should devote their main efforts to supervising the implementation of the guiding principles and policies of the party and state in their units. The administrative senior officers of these units are fully responsible for the work in their units. They are in a leading position and playing a leading role. The party committees in these units and their general branches and branches should only play the role of supervising the fulfillment of the production tasks and business of their units.

With separating the party from government, and defining the functions of the party and state organs, the work of the state's legislative, judicial, and administrative organs can be carried out independently. Some comrades worry that this may weaken the party leadership. It is unnecessary for them to do so. A long time ago, Comrade Deng Xiaoping said: "The work of the government is, of course, carried out under the political leadership of the party. When the government work is strengthened, the party leadership is also strengthened." ("Selected Works of Deng Xiaoping," pp 299-300) Everyone knows that in our great fundamental law—the Constitution—the leadership of the party is explicitly affirmed. In organs of state power at all levels—the people's congresses—party-member people's deputies account for more than 50 percent of the total membership. Of leading members of organs of state power at all levels, the majority of them are Communist Party members. Under such circumstances, how can we regard the strengthening of the functions of the organs of state power as weakening the

party leadership? During the long period of revolutionary struggle, the party led the people to courageously carry out their struggle. Our people shed their blood, or sacrificed themselves. Our aim was to seize state power. After seizing state power and establishing the system of our state power, some of our comrades failed to understand the importance of promoting the prestige of our organs of state power. They failed to realize the necessity of giving play to the role of our organs of state power, and establishing their normal work order. On the contrary, they disregarded our organs of state power, or even set the party leadership against the authority of our organs of state power. This completely ran counter to the original intention of our party. Our previous practice already proved that if the party committee monopolizes everything, and concentrates its efforts on day-to-day administrative affairs, this will inevitably affect the party's consideration of the main guiding principles. This would also affect the party's supervision and inspection of the implementation of the party's line, and the building of the party itself. Comrade Deng Xiaoping has profoundly pointed out: "Too much interference will lead to the opposite of what we wish. The party leadership will be weakened because of this. This might be the problem." ("Building Socialism With Chinese Characteristics," revised and enlarged edition, p 136) With the completion of the work of separating the party from government, and defining their functions: 1) The party committees will be able to free themselves from daily chores of all sorts, and concentrate their efforts on studying important guiding principles, and ensuring the scientific and correct implementation of the line, guiding principles, and policies of the party; 2) organs of state power and various social organizations will be able to independently perform their functions, and this will more effectively reflect the political leadership of the party; 3) the party will be able to avoid quibbling over side issues, so that it can handle contradictions, and play its leadership role of "coordinating various sides"; 4) the party organizations will be able to avoid the trends of getting too involved in administrative affairs, and this will be beneficial to the efforts exerted by party organizations and party members to strengthen their own building so that they can play their vanguard role in a still better way, improve relations between the party and the masses, and enhance the prestige of the party. In a word, the practice of separating the party from government can only strengthen, rather than weaken the party leadership.

#### **Party Leadership Method Should Be Improved To Meet the Demand of Political Leadership**

Improving the method of party leadership is an important content of the reform of party leadership system. Improving the method of party leadership is determined by the change in the tasks of the party leadership. During the period of democratic revolution, the main tasks of the party leadership were to lead and organize the people to carry out revolutionary war in order to seize state power. This determined the characteristics of direct,

specific, and coercive leadership of the party. After the founding of the People's Republic, the system of our state power has gradually become complete. The main task of the party has changed from leading war into leading construction. Under such circumstances, it is no longer suitable for us to continue to adopt the former method of leadership. In accordance with the demand of separating the party from government, the report to the 13th CPC National Congress points out: "The principal method by which the party exercises political leadership in state affairs is as follows: Through legal procedures what the party advocates becomes the will of the state, and the people are mobilized by the party organizations and the good example of party members to implement the party's line, principles, and policies." Specifically speaking, the method of party leadership is changing in the following five aspects:

*1. The leadership is exercised through the formulation of the correct line, guiding principle, and policies.* Our party is a ruling party. Various kinds of work throughout the country should be carried out in accordance with the party's line, guiding principle, and policies. Through legal procedure, the correct line, guiding principle, and policies formulated by the party Central Committee will be turned into specific policies, decrees, and laws of the people's congress and government. Party organizations at all levels will ensure their implementation. This is the principal means and method for reflecting the party leadership. In the process of implementing the line, guiding principle, and policies formulated by the party Central Committee, local party organizations at all levels should also proceed from their local reality to study and work out policies and important measures with local characteristics. If they can do so, this means that the party leadership is forceful and effective. This method is better than unwarranted interference in trifling things.

*2. The party leadership is reflected through giving play to the role of the legislative, judicial, and administrative organs of the state, and the role of economic and cultural organizations, and people's organizations.* Although the party is well organized and has strict discipline, all these are applicable to party members only. They will not be binding on the masses outside the party. The situation of the state organs is different. They reflect the power of the state, and the laws and decrees they promulgate are binding on all citizens. As far as various mass organizations are concerned, they have contacts with and lead parts of the masses. Therefore, when the party is exercising its leadership over the state and the society, it should avoid directly issuing orders and making decisions on all things. On the contrary, through organizational work, propaganda work and necessary legal and administrative procedures, the party should turn its will into the laws, decrees, administrative rules and regulations, and so on of the state organs, economic and cultural organizations, and mass organizations. In this way, various organizations will give play to their enthusiasm and initiative, perform their own functions, assume their own responsibility, mutually coordinate

with each other, and unite as one to implement the line, guiding principle and policies of the party. This will reflect and improve the party leadership in a still better way.

3. *The party leadership is exercised through training, selecting and recommending a large number of outstanding cadres to take important posts of the state organs.* The party recommends its outstanding members to take the leading posts in government organs. They will be directly responsible for implementing the line, guiding principle, and policies of the party. This is another important means and method for accomplishing party leadership. Recommendation does not mean coercive arrangement. It only means recommending candidates to the government organs. In accordance with legal procedure, the government organs hold elections, or appoint suitable persons to certain posts. They have the rights to refuse unsuitable candidates. Under such circumstances, the party organization should respect legal procedure, and avoid substituting inner-party appointment for election, or open appointment.

4. *Party Leadership Is Exercised Through the Exemplary Role of Party Members.* While talking about the change in the working method of the party, Comrade Deng Xiaoping attached importance to this method. He linked the exemplary role of party members with the party's key leadership role. He pointed out: By playing their vanguard role, party members have "become the models of the masses, and the nucleus of the masses." ("Selected Works of Deng Xiaoping," p 233) During the period of democratic revolution, state power and most instruments of propaganda were in the hands of the KMT. It was precisely through the exemplary role of Communist Party members that the broad masses of people recognized the party. After that, they respected and supported the party, and voluntarily accepted the leadership of the party. However, after our party became a ruling party, some people forgot this leadership method. They wrongly thought that without power, it was impossible to talk about leadership. Practice has proved that when we lead the masses, the method of setting an example, issuing calls, rendering appeals, and exercising influence is more effective than coercive means based on power. Today, it is particularly important to stress this method because the ideological consciousness, cultural level, and democratic concept of the masses have been substantially enhanced.

5. *Party leadership is exercised through strengthening ideological, political work.* As we have pointed out above, the party organization is not an organ of state power. In matters of organization and discipline, the party is binding on its members. But it is not binding on the masses outside the party. Party organizations or party members have no right to force the masses to accept their views, or to issue orders to them. They can only persuade, educate, and mobilize the masses, namely carrying out ideological, political work. This is the correct method for them to adopt.

### **Expanding Inner-Party Democracy and Reforming the Organizational System of the Party**

There is a defect of overconcentration of power in the leadership system of the party. The power was overconcentrated in party committees. In addition, inside the party committees the power was overconcentrated in party secretaries. There were historical reasons for such defects. An environment of long revolutionary war fostered a trend of centralism in the party organizations at the expense of democracy. After liberation, we mechanically copied the management system of a foreign country, which was characterized by overconcentration of power. While stressing concentration of power in the party in various fields, we also emphasized concentration of power in party leaders. The defect of neglecting the building of a democratic system inside the party could not be overcome. On the contrary, it was developed. Therefore, for a long time in the past, in the political life inside the party, our power was overconcentrated in a small number of leaders. Collective decisions on important matters could not be institutionally guaranteed. There was no perfect system governing the election, appointment, removal, and supervision over party leaders at all levels. All these problems in our organizational system adversely affected the correct leadership of the party over the entire country. After summing up historical experience, the report to the 13th CPC National Congress correctly points out: "To consolidate and develop the party's correct line, and to make its decisionmaking process more democratic and scientific, and to give full play to the enthusiasm and creativity of party members and organizations at all levels, it is of vital importance to strengthen the systems of the party." It is an urgent and important matter to reform the organizational system of the party. It is an important link in reforming the leadership system of the party.

Sticking to the collective leadership is an important guarantee for the correct implementation of the democratic centralism. It is one of the highest principles governing the party leadership. To fulfill the task of "perfecting the collective leadership system of the party" set by the report to the 13th CPC National Congress, we should do the following: First, matters of primary importance involving the line, guiding principle and policies of the party, the arrangement of important tasks, important appointments and removal of cadres who are administered by the party committees, readjustment and handling of interests of the masses, and important matters which should be collectively decided by party committees in accordance with the instructions issued by the higher authorities, should be collectively discussed by the party committees. They must not be arbitrarily decided by individuals or a small number of people under the pretext of "being busy with work," "being pressed for time," "urgent tasks," and so on. Furthermore, on the basis of carrying forward democracy and promoting full discussion, while the party committees are discussing important issues, they should pursue the system of deciding by ballot. All members of the party

committees should make known their position, and state whether they are in favor of, or dissent from the decision on the matters under discussion, or abstain from voting. It is erroneous for some party organizations to think that decision by ballot is not beneficial to democratic consultation. Comrade Deng Xiaoping once criticized the view. He said: "When major issues are discussed inside the party, very often there is insufficient democratic deliberation. Hasty decisions are made by one or a few individuals and votes are seldom taken, as they should be under the principle of majority rule. This shows that democratic centralism has not yet become a strictly applied system." ("Selected Works of Deng Xiaoping," p 290) The report to the 13th CPC National Congress has explicitly affirmed the voting system regarding important issues discussed inside the party, and proposed a corresponding revision of the relevant parts of the party Constitution. This helps to avoid an abnormal situation of discussing something without reaching a decision, of delaying a policy decision, or the practice of letting certain individuals or a small number of people have the final say. This is also beneficial to enhancing the work efficiency of party committees, and reaching a correct decision. In addition, when decision by ballot is being carried out, party secretaries and members of the party committees are equal inside the party committees. Their relations are not relations between leaders at a higher level and their subordinates at a lower level. If only a minority of people are in favor of the view of the party secretary, he should follow the principle that the minority is subordinate to the majority, and that the decision should be made in accordance with the views of the majority of people. There is no such thing as the "final say" of the party secretary. Once the decision is made, members of the party committees should observe it in their action whether they cast an affirmative or negative vote or have reservations. They should assume their responsibility in accordance with division of labor. They are not allowed to shift responsibility onto others.

While strengthening collective leadership, we should improve our election system so that election inside the party will fully reflect the will of the broad masses of party members. As early as in 1980, the CPC Central Committee already advocated an election system of nominating more candidates than the number of deputies to be elected in "Several Norms Governing Inner-Party Political Life." However, in actual inner-party life, candidates were mostly nominated by the party leading organs. In many places, an election system of nominating as many candidates as the number of deputies to be elected, or such an election system in disguised form, was pursued. This made it impossible to reflect the will of our party members. It is also harmful to the democratic image of the party. The report to the 13th CPC National Congress has stipulated that the practice of presenting more candidates than posts should be applied in the election of deputies to party congresses at all levels, members and secretariats of grass-roots party committees, members of local party committees and their standing committees, and members of the Central Committee.

The practice was applied to the election of the deputies to the 13th CPC National Congress, of members of the Central Committee, and members of the Central Advisory Commission. Good results were achieved, and the practice was praised by people inside and outside the party. In the meantime, the method for nominating and introducing candidates should also be improved so that electors can fully exercise their right to vote. In addition, the party leading organs at all levels should report their work to the congresses or committees which elect them, and accept their supervision. This will be beneficial to demonstrating the will of the broad masses of party members, to enhancing the prestige of the leading organs and leaders of the party, and to making policy decisions of the party more democratic and scientific.

Protecting democratic rights of party members is a basic condition for carrying forward inner-party democracy. Democratic rights of party members are determined by their status inside the party as the masters of their own affairs, and are an indispensable guarantee for carrying forward inner-party democracy. We should truly protect democratic rights of party members. No one is allowed to suppress their democratic rights or deprive them of these rights. Only thus can we ensure a normal inner-party life and the prosperity of the party cause. Due to the obstruction of the Lin Biao and Jiang Qing counter-revolutionary clique, and their leftist erroneous influence, in the party constitutions adopted by the 9th, 10th, and 11th party congresses, the clauses on the democratic rights of party members were deleted. This meant that democratic rights of party members were actually abolished. The party Constitution adopted by the 12th CPC National Congress restored, substantiated, and improved the clause on democratic rights of party members. The report to the 13th CPC National Congress further points out: "The democratic rights of party members as prescribed by the party Constitution should be protected by specific rules. Infringement of the rights of party members is a violation of party discipline, and in such cases disciplinary measures should be taken." The report also stressed that vigorous efforts must be made to widen channels for inner-party democracy, so that all party members will have more understanding of the party meetings and the policy decision process inside the party. Efforts should also be made to gradually make public party affairs, and to strengthen the supervision over the policy decision process of the party and the activities of leaders. The party rank and file should be given more opportunities to involve themselves in inner-party affairs. These are important measures for protecting and expanding democratic rights of party members.

The reforms in the main aspects mentioned above will enable the party to further improve its leadership system, and to expand the inner-party democracy. This will ensure that the party exercises its political leadership more fully and that socialist democratic politics will be further developed.

**Letter From Wu Dakun**

40050158n Beijing HONGQI [RED FLAG] in Chinese  
No 4, 16 Feb 88 p 13

[Letter to the editor from Wu Dakun [0702 1129 3824]  
dated 26 December 1987]

[Text] Dear Editor:

I have just read the article by Comrade Ling Xingguang [0407 2502 0342] entitled "The Economic Contradictions Among the United States, Europe and Japan, and the Trend of Their Development," carried in HONGQI No 24, 1987. It is an excellent article and I am greatly inspired. However, it is regrettable that Comrade Ling Xingguang made no mention of the law governing the development of the economic cycles of capitalism. Actually, the present escalation of conflicts among the United States, Europe, and Japan has a lot to do with the fact that they are at different stages of cyclical development. Next year, the United States is likely to enter a stage of "recession," by which time its economic conflicts with Japan are expected to further intensify. On the whole, the Western world is still in the process of developing from "state monopoly capitalist societies" into "international monopoly capitalist societies." Because of the clash of interests between "internationalization" and "the national economy," it is likely that a world economic crisis will break out between now and the end of this century. The above are my views for your reference.

Revolutionary salute!

**The Reform of the Cadre and Personnel System in the Shenzhen Special Economic Zone**

HK160319 Beijing HONGQI [RED FLAG] in Chinese  
No 4, 16 Feb 88 pp 14-17

[Article by Yu Dehai [5713 1795 3189]]

[Text] The reform of the cadre and personnel system is an important component of political structural reform. The key to deepening the reform of the cadre and personnel system is to exercise legalized and scientific management of cadres and personnel. This is quite important in straightening out organizational relationships, giving play to cadres' initiative, improving supervisory measures, enhancing personnel management efficiency, and speeding up the four transformations of cadres.

**I. A Review of the Reform of the Cadre and Personnel System Over the Last Few Years**

The reform of the cadre and personnel system in Shenzhen has undergone a constant process of deepening in the course of the construction and development of the special economic zone. Over the last few years, we have

studied and explored the new situations and methods of cadre and personnel management in the course of the special zone's economic structural reform and the development of its export-oriented economy. The special zone has made the following moves:

**1. It Has Introduced Diversified Deployment of Cadres.**

During the initial stage of its construction, the special zone was seriously short of talented personnel and urgently needed to transfer some top-quality cadres. Supported by the central authorities as well as provinces and cities throughout the country, the special zone openly invited applicants from among a variety of talented people. We also transferred, borrowed, and employed cadres; or they just came to give guidance or cooperate with us. Now there are over 60,000 special zone cadres (including those working in enterprises and institutions stationed abroad). They are good quality, young people who have acquired a comparatively high educational level.

**2. It Has Reformed the Cadre Appointment System.**

To adapt itself to the situation of reform and opening up to the world, the special zone does not follow the pattern taken by the hinterland in terms of administrative and management organs. It has instead formed an operational mechanism suited to the zone's specific conditions. In 1980, the first joint venture in the special zone began to introduce the factory director (manager) responsibility system under the leadership of the board of directors. Subsequently, the special zone introduced the employment system or direct elections of cadres for state-owned enterprises; or otherwise it allowed the workers' congress to elect factory directors or managers, who would assume office with the approval of the higher authorities. In addition, the special zone also gradually changed the government's leadership mechanism over enterprises so as to promote macroeconomic control and microeconomic invigoration. The zone began to implement the tenure system in the appointment of party and government cadres.

**3. The Special Zone Has Developed Socialist Democracy and Strengthened Mass Supervision.**

The Shekou industrial area took the lead in this respect. In 1984, Shekou encouraged the masses to cast a vote of confidence in leading cadres. If a cadre received over half a vote of no confidence, he was required to leave his leading post. This brought about a change for the better in leadership style and had a good influence among the masses. Subsequently, the special zone introduced public opinion polls, democratic recommendations, and democratic consultations in the course of assessing, appointing, and dismissing cadres, thus putting cadres under the supervision of the masses and enabling them to work at higher or lower levels.



#### 4. It Selects Talent through Open Competition.

The special zone hired many talented people from all over the country but still found it difficult to select and use cadres effectively because its management of cadres still lacked openness. To change this situation, the special economic zone invited applicants for the posts of leading cadres in 10 units including the auditing and labor bureaus. We selected 19 leading cadres of bureau level from among several hundred applicants through a written examination, organizational and physical checks, and interviews by our experts, which all ensured the quality of our selection. Most of the leading cadres hired in this way were competent, had a good working style, and could blaze a new trail in work.

Moreover, we have also carried out reforms and explorations in the systems of training cadres, wages, and labor. These reforms and explorations have promoted the special zone's economic development and laid a good foundation for deepening the reform of the cadre and personnel system.

### **II. The Deepening of the Reform of the Cadre and Personnel System Should Be Based on the Formulation of Personnel Regulations**

We have made certain achievements in the reform of the cadre and personnel system over the last few years, but this reform is still far from being perfect. Therefore regulations should be worked out so that the people in the entire city can abide by them. Without such regulations, we cannot resolve personnel problems properly. Therefore it is necessary to deepen this reform, to sum up successful experience in this reform, and to lay down personnel regulations.

In 1987, on the basis of extensive investigation and study, we formulated the "Provisional Regulations on the Appointment and Dismissal of Cadres in Party and Government Organs and Institutions in Shenzhen City," the "Provisional Regulations on the Leading Cadres' Avoidance System in Shenzhen City," the "Provisional Regulations on the Deployment of Cadres in the Shenzhen Special Zone," the "Provisional Regulations on Controlling the Size of Government Organs in Shenzhen City," and the "Provisional Regulations on Engaging Advisers to the Shenzhen Special Zone." These five regulations have been enforced throughout the city. In addition, the drafting of the provisional regulations on selecting personnel through examination as well as on training, assessment, punishment, and reward has been completed. These regulations have helped improve cadre management work in the following aspects:

#### 1. They Have Enabled Us to Implement the Probation System and Systematize Successful Experiences.

There are comrades being promoted to different leading posts every year following the development of our cause. How should the quality of promotions be ensured? There

are explicit stipulations in these regulations which have set higher demands on newly promoted cadres. Apart from demanding that those who are promoted to leading posts should have acquired higher learning or a secondary educational level (or equal qualifications through self-study), the stipulations have set the following conditions on seniority: 1) For promotion to the post of section chief, cadres should have at least 4 years' seniority; 2) for promotion to the post of county departmental head, cadres should have at least 7 years' seniority; and 3) for promotion to the post of departmental, commission, or bureau chief, cadres should have at least 10 years' seniority. For promotion to the post of county department head, cadres should have worked for at least 2 years at one or several lower posts.

A cadre in a new post will be put on probation so confirmation of his ability can be made. For this reason, the new stipulation on appointment and dismissal of cadres points out that newly promoted deputy section chiefs in administrative institutions affiliated with the authorities at the county, district, or city level will be put on a 1-year probation. After probation, those who prove themselves qualified will be formally employed and those who are not qualified for their jobs will be required to return to their original posts. Not only has this enabled cadres to work at higher or lower levels, it has also put invisible pressure on cadres who have been promoted.

#### 2. They Have Enabled Us to Apply the Concept of Systems Engineering to Comprehensive Management and Coordinated Reforms.

Cadre and personnel management is a type of complicated social systems engineering in which various links are related to and conditional on each other. We paid attention to handling these mutual relationships in the past, such as simultaneously introducing the reform of the appointment and dismissal system and the reform of the wage system. However, there was still a lack of perfect coordination, which generally led to mutual contradictions. In the establishment of the employment, selection, training, assessment, punishment and reward, avoidance, and exchange systems for cadres, currently under way, explicit explanations have been provided for the mutual coordination of these systems, thus forming an entity in which all relevant links are closely connected.

3. They Have Enabled Us to Have A Clear Idea of the Right Way To Manage Cadres and of How to Report Cases to the Next Higher Authorities for the Record. Because of the lack of experience and correct guidelines, some inappropriate things have occurred in the reform of the cadre and personnel system in the special zone, such as being unable to proceed in strict order, to make a clear distinction of responsibility, and to effectively carry out macroeconomic control. Some departments have promoted cadres to higher posts or grades at will and a small number of people have abused their powers



and appointed cadres by favoritism. Therefore, we have delegated powers to the lower levels, exercised graded management, assigned responsibility to each level, regularized information feedback, supervision, and inspection, and reiterated the implementation of the filing system and the enforcement of discipline. The "Regulations on the Deployment of Cadres" have delegated the right to examine and approve, but demand that departments in charge strictly abide by the terms and conditions for transferring cadres, fill in the "form on cadre numbers" every month, and submit it to the city department in charge. The "Regulations on the Appointment and Dismissal of Cadres" also explicitly provide that the names of cadres appointed or dismissed by the lower levels should be submitted to the higher levels. Most regulations point out that responsible departments at the higher levels have the right to nullify any decision violating these regulations and to severely punish serious violators.

#### 4. They Have Enabled Us To Exercise the "Avoidance System."

To better implement the party's line on cadres, prevent malpractices, and provide an excellent environment for the healthy growth of cadres and blazing new trails, we formulated the "avoidance system" clearly stating that relatives of leading cadres are not allowed to work in the departments directly under their leadership and that this should be included in their annual summation and inspection report.

### III. Expanding Democratic Supervision and Perfecting Management of Cadres and Personnel

Carrying out democratic appraisal and democratic supervision will help cadre and personnel departments overcome one-sidedness and blindness in work and strengthen cadre management.

#### 1. It Is Necessary to Carry Out the "First Check" on Cadres' Promotions Properly.

In the past, discussions on promotions of cadres were conducted in a confidential manner without inquiring about the masses' opinions. As a result, there was frequent one-sidedness. To strictly exercise the "first check," the "Regulations on the Appointment and Dismissal of Cadres" point out that before making a decision on the candidates for the post of deputy leader, democratic recommendations should be obtained in the units these candidates belong to; before promoting cadres to the post of section or office director, opinions should be solicited from the masses in the section or office. After the implementation of this stipulation, some cadres were erased from the list of candidates for these posts during the "first check." Most of these comrades took a correct attitude toward the masses' opinions.

#### 2. Democratic Appraisal Can Produce Much Benefit.

We also made democratic appraisals of leading cadres in the past, but the methods were very simple, the work was not carried out meticulously, and the filing system was not good enough. So the cadres' files were generally distributed only among investigators. To change this situation, in early 1987 we democratically appraised the leading cadres of the city departmental and commission offices as well as of the general corporations (groups) run by counties, districts, and bureaus in the entire city. We got excellent results. We carried out an adjustment among some cadres, worked out a 3-year plan for cadres at the bureau level, selected some reserve cadres, and set up a detailed filing system for examining cadres.

The current democratic appraisal activity is being conducted in six steps: The first step is mobilization in which the purpose, significance, and methods of democratic appraisal are explained to cadres and the masses; the second step is cadres reporting to the masses on their achievements, problems, experiences, and lessons since their assumption of office; the third step is the masses making a comprehensive appraisal of leading cadres in the posts while on the other hand recommending other cadres in a democratic manner; the fourth step is allowing the masses to make back-to-back comments on the merits and demerits of leading cadres; the fifth step is carrying out a direct dialogue between leading cadres and the masses' representatives on the basis of democratic appraisal; and the sixth step is holding meetings on the democratic life of leading cadres, at which leading cadres are required to conduct criticism and self-criticism on the problems raised by the masses, to work out rectification measures, and, where necessary, to provide feedback for the masses so as to receive better democratic supervision from them.

This democratic appraisal activity is being conducted in 88 units, in which 6,169 people are participating, with 5,740 valid votes. Talks to solicit opinions have been conducted with 1,487 people on an individual basis, and 287 leading cadres have received appraisals and comments. To carry out democratic appraisals in a scientific and systematic way, comprehensive comments are made on the quality of leading cadres, allowing the masses first to make a qualitative appraisal of the merits and demerits of leading cadres and then to make quantitative comments on their morality and ability so as to finally distinguish between the excellent, the good, the qualified, and the unqualified. To facilitate the formation of the filing system, we worked out a "registration form for democratic appraisal of leading cadres" requiring leading cadres to state in the form their "main achievements during their tenure of office," their "main problems," and their "suggestions and needs." Then the party committee (or party group) of the unit these cadres belong to can make suggestions and the appraisal group will write the "appraisal results" (including opinions after investigation). The relevant cadre may record his agreement or reservation. Finally the organizational department will

sort out the cadres' material and put it on file. From now on, leading cadres at the district, county, and bureau level are required to carry out a democratic appraisal and recommendation once a year, and this should become a system.

In making a comprehensive appraisal of the 287 leading cadres, the masses have defined 3 as excellent leading cadres, accounting for about 1 percent; 162 as good leading cadres, accounting for 56.4 percent; 109 as qualified leading cadres, accounting for 38 percent; and 13 as unqualified leading cadres, accounting for 4.5 percent. From among the 931 leading cadres who have been recommended, we have selected for reserve purposes 169 who have better conditions and qualifications than the rest. In a word, democratic appraisals have enabled cadre and personnel work to become scientific.

#### **IV. Speeding Up the Change in the Functions of Organizational Departments and Continuously Improving the Quality of Personnel Cadres**

Old ideas and old concepts are hampering reforms. To carry out the reform of the cadre and personnel system more profoundly, there is a need to eliminate old ideas and change old concepts. This includes changing the old concepts in the minds of leading cadres and personnel cadres as well. Over the last few years, in line with the practice of reform, we have done a great deal of work in changing old concepts, thereby enabling our cadres to adapt their ideas to the new situation. For example, in the past we regarded cadres who volunteered for certain leading posts as "asking for official positions" and as the "expansion of bourgeois ideas." Following the deepening of reforms, we came to realize that this did not conform to the trend of the era. Now we welcome those who "volunteer their services," because their purpose is to devote their wisdom and talents to the four modernizations. In inviting applicants for the post of bureau chief, we encourage people of insight to respond to the challenge.

In the past we always considered whether a cadre had made mistakes an excuse for adjusting his work. Thus it was often the case that cadres who had made neither mistakes nor contributions were retained. This practice no longer conforms to the new situation of reforms and opening up to the world. We will never be able to blaze a new trail in work if we continue to rely on this type of cadre. Therefore we have eliminated this old concept and established a new one that regards "making no contribution as a demerit," thereby raising the appraisal of cadres to the new concept that takes making explorations, innovations, and contributions as its main component.

It is imperative that we change the functions of organizational departments. The key to this change is to correctly handle the relationship between routine micro-economic work and macroeconomic management, to shift from daily affairs to major affairs, and to pay

attention to the implementation of major policies. Policy management, target management, procedural management, and establishment management should all cater to the needs of reforms, opening up to the world, and economic construction.

Now state enterprises affiliated with the special zone government are introducing the shareholding system. How should these enterprises expand their autonomy, speed up their self-development, and improve their self-control ability in the course of separation of ownership from operational rights? How should they use the reform of their leadership structure to stimulate the reform of their operational mechanism? These questions merit study and discussion. Now we are studying the methods to implement the factory manager (director) responsibility system in state enterprises under the leadership of the board of directors, working out regulations on the work of the board of directors, the chairman of the board, and the manager, and discussing the establishment of a new enterprise structure under which the chairman of the board represents the ownership right and the manager represents the operational right.

Speedily improving the political and professional quality of personnel cadres is an important condition for deepening the reform of the cadre and personnel system. For this reason, we are improving the regular meeting system for the personnel departmental (bureau) chiefs of district and county organizations. In the course of working out a system and plan for training cadres, we also pay attention to giving special training to organizational cadres and to running special courses for their advanced studies. The city party committee's organization department has sponsored forums on two occasions explaining to cadres modern knowledge of personnel management, including the science of talents. We have also introduced exchanges of personnel cadres, thus rationalizing their mix and improving their quality. A corresponding adjustment concerning responsibility, duty, and work scope has been carried out in organizational and personnel departments to lay a foundation for the deepening of the reform of the cadre and personnel system.

#### **On the Ultimate Decisive Role of Productive Forces**

*HK100341 Beijing HONGQI [RED FLAG] in Chinese No 4, 16 Feb 88 pp 18-21*

[Article by Yu Zheng [0151 1767] and Zhang Qihua [1728 0796 5478]]

[Text] The report of the 13th CPC Congress summed up our historical experience in socialist construction of the past 30 years and more and emphatically reiterated that productive forces form an ultimately decisive factor for social development—a basic viewpoint of historical materialism. This is not a new viewpoint for us, but we now have completely renewed our understanding of it through reviewing our past experience and restudying socialism. History and reality all clearly show that a key

issue that concerns the success or failure of our cause is whether we can really understand this viewpoint and use it to guide our socialist construction.

The materialist conception of history took shape more than 100 years ago. Before that, the idealist conception of history held a dominant position in the field of social history. The idealist outlook held that history was determined by the will of some heroic figures, or held that human history was determined by certain supernatural, spiritual power. Although the old schools of materialism held a materialist outlook on nature, they were still bogged down in the mire of historical idealism in the field of social history. The birth of Marx' materialist conception of history terminated the "monopoly" of the idealist conception of history.

None of the viewpoints of historical idealism recognized the decisive role of the social conditions in people's material life or realized the decisive influence of people's material production on people's social being and development. For the first time in human history, the materialist conception of history held that "the production mode in material life determines the entire process of social life, political life, and cultural life. It is not people's thinking that determines their being, but it is people's social being that determines their thinking." ("Selected Works of Marx and Engels," Vol 2, p 82) The movement of contradictions inside the production mode, that is, the movement of the contradiction between productive forces and production relations, is a basic cause of all social change. Productive forces form an ultimate decisive factor for all social developments. This reveals the secrets of social history and reveals the objective law that governs social development. Therefore, the theory of socialism is not only established on the basis of indignation against the sins of capitalism and yearning for the beauties of an ideal social system in the future, but it is also based on the profound analysis of the basic contradiction between the productive forces and the relations of production in capitalism. Thus, socialism is changed from a utopian idea into a science.

However, the failure of the idealist conception of history does not mean that it will disappear forever, and the victory of the materialist conception of history does not mean that it will be easily mastered by the people. In fact, in a socialist country and inside the Communist Party, people still have to experience many twists and turns and make painstaking efforts before they can really understand that productive forces are the ultimate decisive factor for all social developments and that relations of production and superstructure can promote the development of productive forces only when they are suited to the conditions of the productive forces and can always follow and apply this basic law in practice. In our party's history, we had the experience of following this law and correctly applying it to our revolution and construction and were thus able to succeed in emancipating and developing the productive forces, bring benefit to the people, and bring about social progress in China. After

the founding of new China, we faced a backward material and technological foundation that was left over from old China and faced disturbances, sabotage, and serious threats caused by international capitalism. In order to consolidate the newborn political power of the people and lay a solid foundation for the establishment of the socialist system, under the leadership of the CPC, the Chinese people rapidly restored the national economy in a short period of 3 years and began to carry out planned economic construction. This laid the initial foundation for our country's socialist industrialization. The Eighth CPC National Congress in September 1956 clearly put forth the main task of concentrating all strength to develop the social productive forces. However, this correct line was not put into practice in subsequent years; on the contrary, we gradually moved onto an erroneous "leftist" path in both theory and practice. This obstructed the development of the productive forces, brought disaster to the people, and retarded the process of our socialist construction. This negative experience in history taught the Chinese communists and the general public in China a profound lesson and called for deep thought among many party members and ordinary people. They thus renewed their understanding of socialism and Marxism. Comrade Deng Xiaoping once made a brilliant thesis on this. He said: "What is socialism? What is Marxism? In the past, we did not clearly understand these questions. Marxism lays the most stress on the development of the productive forces. We used to talk about communism. What does communism mean? It means that people in society will all get what they need through making contributions to society according to their abilities. This requires a high development level of productive forces and a great abundance of material wealth in society. Therefore, the fundamental task in the socialist stage is to develop the productive forces. The superiority of socialism should be demonstrated in the higher level and in the quicker development of its productive forces as compared with capitalism. If we say that there were shortcomings in our work after the founding of the People's Republic, that mainly referred to our neglect of the development of the productive forces. Socialism must eliminate poverty. Poverty is not socialism, still less communism. The superiority of socialism lies in the gradual development of the productive forces and the gradual improvement of the people's material and cultural lives. Under the present backward conditions in China, we are facing the issue of how to develop the productive forces and how to improve the people's livelihood." ("Building Socialism With Chinese Characteristics," revised and enlarged edition, pp 52-53) This thesis expresses the common idea of all party comrades and all people in our country and represents a typical example of applying the materialist conception of history to the handling of China's socialist construction. Now, the correct idea about the fundamental task of socialism being the development of the productive forces has been gradually understood and accepted by the vast number of party members and cadres and has been fully proved and enriched in the report to the 13th CPC Congress. Seriously studying the

13th party congress report and mastering the theory about the initial stage of socialism would enable us to further emancipate our minds, break the old conventions, and effectively prevent and overcome various erroneous tendencies in socialist construction.

The main erroneous tendency of our socialist construction, and one which persisted for a long time, was "leftism." In theory, "leftism" denies that the productive forces are an ultimate decisive factor for all social developments and denies that the relationship between production and superstructure can promote the development of the productive forces only when they are suited to the conditions of the productive forces. It stresses that as long as people have political enthusiasm, good will, and strong will, the relations of production can be continuously "upgraded" and an ideal social system can be established. Thus, it blindly seeks a larger scale of public ownership, an absolutely "equal" form of distribution, and a higher degree of centralism in economic management. As a result, mass movements for a "transition to communism" "on a poor foundation" were staged, and the "tail of capitalism" had to be cut. Endless political movements were carried out, with "class struggle as the key link," and a "revolution in the ideological field" was also launched in order to build "pure" socialism and communism as soon as possible. A major epistemic cause of such erroneous "leftist" ideas was the utopian thought about revolution and development. This utopian thought was demonstrated in a different way from utopian socialism in history, but the two sides both denied that the productive forces are the ultimate decisive factor for social development and both based the building of socialism on people's wishful thinking. For example, the socialism advocated by some French utopian socialists in the 18th century, such as Mably [7456 1580 6849], was not only a utopian model but was also a model of poverty. According to them, all the sins of human society, such as greed, private ownership, and class differences, came from the development of the productive forces and the increase in wealth. So, they held, in order to eliminate private ownership and class differences, the increase in wealth and the development of productive forces must be restrained. Marx and Engels called such a brand of socialism "general asceticism" and "crude egalitarianism." ("Selected Works of Marx and Engels," Vol 1, p 281) Aren't there some similarities between such utopian socialism and the "leftist" theory in our country, which called for "socialism and communism on a poor basis"? The epoch-making creation of Marxism was turning the socialist theory from a utopian one into a scientific one. However, the erroneous "leftist" theory in our country again backtracked to utopianism, and it was just a kind of idealist conception of history, which was completely antagonistic to the materialist conception of history.

Of course, by recognizing that the productive forces are the ultimate decisive factor for all social development, we do not mean that no country can ever enter the stage of socialism without experiencing the full development

stage of capitalism. In our country some people hold that since socialist society should be based on highly developed social productive forces, then China, as a country with backward productive forces, should not take the socialist road now, but should "make up the missed lesson of capitalism."

Indeed, Marxism holds that human society generally experiences the stages of primitive society, slave society, feudal society, capitalist society, socialist society, and communist society. However, Marxism does not hold that every country, without exception, must experience all of these stages, no matter when and no matter what its conditions are; nor does Marxism put forth the rigid formula that no country can enter the socialist stage without experiencing the full development of capitalism.

In China's modern history, a large number of Chinese patriots with lofty ideals made great efforts and even great sacrifices to advocate and build a capitalist system in China in order to make the country prosperous and powerful, but they all failed. Why? The reason lay in the special historical conditions of China. China became a semifeudal and semicolonial country due to imperialist aggression. Under the oppression of the "three big mountains" of imperialism, feudalism, and bureaucratic capitalism, China's capitalism was weaker than capitalism in other countries, but the proletariat in China was much stronger than the bourgeoisie in China and had a more solid social foundation. Thus, the mission of leading China's democratic revolution could not be shouldered by the proletariat. The new democratic revolution led by the CPC also made the necessary economic and political preparations and organized the class strength for the socialist revolution. It was under these special historical conditions that China could not take the capitalist road and had to take the socialist road. This was not determined by any people's wishful thinking but was an inevitable development of history. China's modern history shows that approaching the process of revolution and the development of social history from a mechanical point of view without regard to the concrete historical conditions is a major epistemic cause of rightist errors. It is also a demonstration of the idealist conception of history.

The Chinese people can take the socialist road directly, without experiencing the stage of fully developed capitalism, but they must experience, and cannot jump over, the initial stage of socialism, without substantially developing their productive forces. This is not a case of the so-called "antinomy." The two conclusions are unified on the basis of the materialist conception of history, which holds that the productive forces are the ultimate decisive factor for all social developments.

Since the 3d Plenary Session of the 11th CPC Central Committee, our party has integrated Marxism with the reality of China's construction; and the report to the 13th CPC Congress systematically expounded the theory of the current socialist initial stage in our country. This

theory is based on nothing but the current conditions of the productive forces in our country: On the one hand, through socialist construction in the past 30 years and more, we have initially established a material and technological foundation for socialism; on the other hand, the economy and culture of our country remain at a rather backward level, with the commodity economy being less developed and the development of the productive forces remaining at a low level and an uneven condition. Although the per capita GNP of our country has been raised substantially, it still ranks behind more than 100 countries in the world. In some areas, the people still cannot get sufficient food and clothing. The means of production are still rather backward, with hand tools, modern machines, and automatic equipment all being used at the same time. This level of the productive forces and the unevenness and multi-tieredness of their development determine that our current relations of production should allow the coexistence of different ownership forms, with public ownership as the main body; allow the coexistence of different distribution forms, with distribution according to work as the main body; allow the existence and a certain degree of development of the private economy, which includes the factor of wage labor; and allow the existence and development of nonlabor incomes to a certain extent. Such reforms and policies are in line with the principle that the relations of production should be suited to the conditions of the productive forces.

However, in our party, due to the long-standing influence of "leftism," it is impossible to quickly and completely remove from the people's minds the idealist conception of history, which approaches socialism in an abstract way, and it may be reflected in people's opinions on this or that concrete issue. Some comrades still have deep misgivings about the coexistence of a number of different ownership forms with public ownership as the main body, the coexistence of different distribution forms with distribution according to work as the main body and the existence of wage labor and nonlabor incomes. They doubt whether such things are compatible with socialist society. If we do not make efforts to break through such mental shackles caused by some ossified and outmoded ideas, we will not be able to firmly establish the viewpoint that the fundamental task in socialist society is to develop the productive forces or properly notice the low development level of the productive forces in our country, the unevenness in the development of the productive forces, and the multi-tiered condition of our productive forces. Then we might rigidly stick to the unrealistic old conventions and regard the above-mentioned phenomena as incompatible with socialism and thus try to prohibit their existence. This would just result in obstructing the development of the social productive forces and would eventually harm the socialist cause. In this regard, we had a lot of negative experience in the past. Therefore, we must deepen the economic structural reform. We will not only break the ossified old economic structure, but will also establish a new economic structure, which is best suited to our

national conditions and to the characteristics of the economy in the initial stage of socialism, and represent relations of production that can most effectively promote the productive forces in our country. In a word, our reforms in various aspects should be carried out in light of the conditions of the productive forces in our country and serve the purpose of developing our productive forces.

Reform is also a process of exploration, and there is no ready answer for our ongoing reforms. New things and new questions will continuously appear in the process of reform and in the process of understanding the reforms. What should be the criterion for us to judge whether a new thing is right or wrong and whether it is progressive or retrogressive? The criterion is nothing but the materialist conception of history, or the productive forces criterion. That is, when considering all issues and assessing all measures in our work, we must see whether they are favorable to the development of the productive forces. In a certain period, why were some reform measures that were proved by practice to be favorable to the development of productive forces regarded by some people as capitalist things? And why were some practices that obviously obstructed the development of productive forces regarded as socialist things? This was because they replaced the production forces criterion based on the materialist conception of history with some abstract principles and superhistorical "moral" standards when considering these issues. According to the Marxist viewpoint, the right or the wrong of a specific form of relations of production is not judged according to any moral standards, but should be judged by seeing whether it is favorable to the development of productive forces. This does not mean that we should deny or neglect the powerful reaction of production relations on productive forces; instead, we just stress that productive forces and relations of production should be approached by integrating them with each other. That is, we should not merely consider the changes in relations production without linking them with the development of the productive forces. We stress that only by recognizing the ultimate decisive role of productive forces and taking productive forces as the fundamental criterion can we really understand the powerful reaction of relations of production and superstructure and properly handle the contradictions between relations of production and productive forces and between the economic base and the superstructure. Only thus can we ensure that the relations of production and the superstructure will not be changed at will and will really be in line with the current conditions and requirements of the development of the productive forces in China. It is based on this idea that our party affirms that in the initial stage of socialism, everything that is favorable to the development of productive forces and is in keeping with the fundamental interests of the people is needed and allowed by socialism. With the criterion of productive forces in mind, we will be able to bring the superiority of socialism into better play, to better overcome the ossified "leftist"

ideas, to prevent the practice of unrealistically "upgrading" relations of production, to get rid of the erroneous things that were added to the theory of socialism in the past, and to carry out reforms more consciously and more effectively. The productive forces criterion in socialism is a demarcation line between the material conception of history and the idealist conception of history. With this criterion, socialism will not become only a mirage but will always be a reality in people's lives.

Practice has proved and will continue to prove that our practice of carrying out reforms and the opening-up policy in a big way in the past years to greatly develop the productive forces and to build socialism with Chinese characteristics is correct. The basic viewpoint of the materialist conception of history that the productive forces are the ultimate decisive factor for all social developments will once again demonstrate the splendor of truth in our practice.

### **How Did We Promote the Healthy Development of the Technology Market?**

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[Article by the Shenyang City Scientific and Technological Commission]

[Text] In August 1980, the city of Shenyang established a technological service company. Since then the technology market has been fast developing. A preliminary technology market network that covers urban and rural area has been formed. The value of the technology trade has been growing each year. In 1981-1984 the value was 241 million yuan. In 1985 it reached 258 million yuan, in 1986 it was 264 million yuan, and by 1987 it exceeded 35 million yuan. Shenyang has carried out exchange and collaboration on the technology market with 27 provinces, cities, and autonomous regions in China. We have exported close to 10,000 items of technology to provinces and cities and some of them have entered the international market.

### **The Necessity and Importance of the Emergence of the Technology Market**

In Shenyang there are over 5,000 industrial enterprises, over 300 scientific research organizations, and an 260,000 scientific and technological personnel, of which 170,000 are in natural science research. For a long time, scientific research has been divorced from production. The equipment, technology, and products of enterprises were outdated, their competitive power was weak, and their economic benefit low. A great deal of research results of scientific research institutes was accumulated and awaiting application to production. A lot of qualified people were waiting for an arena to use their talents. Medium- and small-scale enterprises had many technological problems that needed to be resolved. In order to change this situation, we employed administrative

means to diffuse technological achievements, but the result was only minimal. After the 3d Plenary Session of the 11th CPC Central Committee, we experimented with the establishment of a technological service company and organized the transfer of technological achievements with compensation among scientific research units. It did not take long to diffuse the technological achievements which had been accumulated for years. The number of units that participated, the quantity and influence all exceeded our expectations. After the "Resolution of the CPC Central Committee on the Systemic Reform of Science and Technology" was issued, with our previous work as a foundation, we further modified and formulated measures for the management and encouragement of the technology market, so that the technology market would be organized, guided and develop healthily.

Science and technology are the products of human mental labor. They have both value and use value. With the development of science and technology, the value of technology in the creation of the value of commodities has been increasing. More and more technology has become commodities in the form of knowledge. Their value and use value have to be realized through exchange. Our previous attempts to integrate technology with the economy failed mainly because we had not recognized the commodity attribute of technological achievements and had not worked according to the law of the economy. At present, the technology market, with its vitality, is becoming an important component of the socialist commodity market. In order to meet the objective demand of the development of the socialist commodity economy and speed up and deepen reform, we must actively expedite the development of the technology market and the commodification of technological achievements.

Practice has proved that the technology market has important functions in many aspects.

**It increases the vitality of scientific research units.** The technology market provides a channel and an arena for scientific research units to be geared to the needs of society. The rate of expedition and application of technological achievements has significantly increased. The rate of expedition and application of Shenyang's technological achievements has soared from 30 percent before the development of the technology market to 80 percent at present. Through the provision of appropriate technological commodities, scientific research units earn incomes and can develop themselves. In 1986, 38 technological development research institutes in Shenyang cut 73 percent of their operational costs. In addition, they earned more than 13 million yuan, which was 1.6 times the original operational costs. The technology market has become an important source of vitality for scientific research units to develop themselves and help revitalize the economy.

**It promotes the technological progress of enterprises.** Before the development of the technology market, enterprises had no access to technology. Now the technology

market has become a channel of progress based on technology for a lot of enterprises. Through the technology market, the Shenyang No 1 Pharmaceutical Factory introduced many technological achievements such as (mai di mei su [7796 6611 7199 4790]). They have greatly raised the adaptability and competitiveness of the enterprise. The output value and profits from new products are growing each year. In 1986, this pharmaceutical factory earned a profit of 9.68 million yuan from its new products, which was 92 percent of its total profits. The technology market has disrupted the old pattern of enterprises producing the same product for several decades and accelerated the process of transforming technological achievements into productive forces. From 1984 to 1986, over 5,660 new products were produced in Shenyang on an experimental basis, of which 182 reached international standard and 487 reached advanced Chinese standard.

**It widened the road for the scientific and technological personnel to apply their talents.** An enclosed and ossified old system seriously blocked the mobility of people and their talents, so that a large number of scientific and technological personnel clustered in a few scientific research institutes. Their initiative was not adequately mobilized. On the other hand, many medium- and small-scale enterprises did not even have medium ranking technological personnel. The technology market provides a mobility channel and a stage for large numbers of scientific and technological personnel to use their talents. In the past few years, mobility had been made possible for some 13,000 scientific and technological personnel in Shenyang. Scientific and technological personnel had been organized to give over 100,000 person-times of technological guidance and service to medium- and small-scale enterprises.

**It helps the transfer of technology from the ordnance industry to civil use.** Shenyang's ordnance industry departments possess many of the most advanced technology and scientific and technological personnel as well as rather advanced experimental and testing means. Because of the barriers between the lower and higher levels and the departments, such technological strength could not be applied to economic construction. The technology market opened the door that led scientific research of the war industry to enter society. Not only does the war industry department send a lot of its technological achievements to the major fronts of economic construction, it also actively helps local areas to absorb the technology that has been introduced and solve problems. In so doing, it significantly helps to promote the development of the local economy. From 1985 to August 1987, the war industry department of Shenyang signed 5,783 technology contracts with a total value of 0.358 billion yuan.

**It promotes the integration of urban and rural areas.** Before, the mountain areas in the east of Shenyang were known for their poverty before. The city employed many measures to help relieve the poverty, but to no avail.

Laotangyu village of Lixiang County introduced "an inconspicuous minor technology" from the technology market to popularize the use of small sunlit-greenhouses to raise chickens and grow vegetables. It took only 3 years for the per capita annual income there to soar from 240 yuan to 736 yuan. The peasants were able to move to small buildings of two or more stories and had access to tap water. The "courtyard economy" has become very popular in the whole eastern hilly region. The establishment of the village technology market has accelerated the diffusion of industry to agriculture and the extension of agriculture to industry. By the end of 1986, the number of village and town enterprises had reached 44,000, with 425,000 people involved in them, and a total output value of 2.82 billion yuan, which was already twice more than the total agricultural output value.

#### **Major Ways To Promote Development of the Technology Market**

We grasp the following key links to promote development of the technology market:

##### **1. Pushing the Circulation of Technological Commodities.**

During the initial phase of the Shenyang technology market, most of the deals on technological items were made at the technology fair and the standing technology market. As the scientific research units and institutes of higher education had accumulated a great deal of scientific and technological achievements over many years, and production units were in urgent need to resolve some problems, both the technology market and technology fair were active. However, with the continuous transfer of technological commodities, the business both at the standing technology market and the technology fair became slow. This phenomenon reminds us that a single form of technology trade cannot meet the demands of buyers and sellers. More channels and more forms of technology trade activities must be explored in order that the technology market develop healthily.

The technology fair was dominated by sellers of technological commodities—scientific research units and institutes of higher education. Buyers of technological commodities had less say over what was available. Therefore we organized competitive-bidding meetings to invite sellers to resolve problems. This was done chiefly to meet the needs of buyers. Information briefing meetings which interested both buyers and sellers were held. We also created over 10 forms of technology trade, such as "exhibition on key scientific and technological achievements," "the great science and technology wagon," "the tiny service group," "meeting on the introduction of advanced technology from abroad," etc.

Like the goods market, the technology market needs a business network that spreads in all directions. At different points of time, we established organizations to operate the development of technology at scientific



research units, institutes of higher education, certain enterprises of war industry with technological strength, and large- and medium-scale enterprises. Some scientific and technological personnel specialized in operating technological commodities, promoting technological achievements, and collecting production problems. We also encouraged and supported scientific and technological staff who had left their jobs or resigned and those on leave of absence to set up local people-run technological development organizations. At present, Shenyang has 101 local people-run technological development organizations that involve over 1,000 people. With these as a base, a system of technological commodity circulation has gradually been formed with the employment of liaison workers and setting up of associations for social activities and coordinated networks. This system is trans-departmental and trans-regional. It integrates town with country.

An important link in enlivening the circulation of technological commodities is to make full use of intermediate organizations. In 1984, with the original technological service company as the base, we set up a city technological development center. Since then this center has been acting as an agent for many items of technological achievements. It has also been responsible for the trans-regional joint marketing of technological commodities, subsidizing technological trade loan provision, organizing the shared use of large instruments, etc. It has performed an important function in the development of the technology market. It has organized and coordinated some 1,100 items of technological transfer. At present there are over 10 intermediate organizations in Shenyang. The science association, trade union technical association, some democratic parties, and various trades have also set up their own intermediate organizations. They enthusiastically seek "husband's families" for technological achievements and technological experts for production problems. They are praised as "technological matchmakers" who effectively promote the circulation of technological commodities.

## 2. Application of Policy Orientation.

Since its appearance, the technology market of Shenyang has encountered many practical problems. For example, for some time some people could not distinguish the boundaries between technological operation and party and government offices which ran business, so that many scientific and technological personnel were full of doubts and misgivings and many development organizations took a wait-and-see attitude. The municipal party committee and the municipal government held meetings respectively to study this problem and issued in time "Opinions on a Few Problems in the Reform." In the document they clearly defined the policy boundaries, fully approved the legitimacy of incomes earned from technological consultation and transfer of technological achievements with legal means. They also defined as reasonable scientific and technological personnel's

receiving financial rewards according to the right proportion. Because of this the technology market became active once again. From this incident we realized that policy orientation is an important guarantee for the promotion of the development of the technology market. Since then, we have paid much attention to the study and formulation of policies and set up a department specializing in policy studies. Policies and laws on the technology market formulated and issued by the city of Shenyang in the past few years relate mainly to the following questions:

The first is the active support for the production of technological commodities. Shenyang allows all units to enjoy temporary tax exemption on incomes they earn from the technology trade. This has increased their power of producing technological commodities and has attracted scientific research units, institutes of higher education, and some large and medium enterprises with technological strength to actively involve in the technology trade. Because scientific research units lack adequate circulating funds to operate on technological commodities, we formulated a policy to resolve this problem. In 1987 we provided 3 million yuan for scientific research units under the city to resolve this problem.

The second is the effective promotion of the consumption of technological commodities. Because enterprises lack funds to purchase technological commodities, our city adopted the preferential policy of tax exemption on new products. We also stipulated that funds spent on purchasing technological commodities could be included in the costs, and that subject to the investigation and approval of the finance department, a certain proportion of the total sales could be used to set up a technological development fund. These measures have greatly strengthened the ability of enterprises to develop and absorb technology. In 1986 Shenyang developed 2,307 new products, of which 1,776 were put into production. They had an output value of 1.35 billion yuan, or 8.2 percent of Shenyang's total value of industrial output.

The third is the earnest mobilization of the initiative of the scientific and technological personnel. We broke the strict regulations in personnel management by permitting technological personnel to provide spare-time technological consultation, technological service, and to transfer their technological achievements obtained from outside of their full-time job. We also encouraged scientific and technological personnel to contract, rent, and operate medium- and small-scale enterprises, village and town enterprises, and technological development organizations. In 1981 the municipal government issued "Temporary Regulations on the Transfer of Scientific and Technological Achievements With Compensation and Standards on Technological Service Fees," which allow the extraction of a certain proportion of the net income from technology to be payment for scientific and technological personnel. This sum would not be included



in the unit's bonus. In this way the sales of technological commodities and the personal interest of scientific and technological personnel are linked up with each other.

In the course of studying and formulating policies, we paid much attention to the adaptability and orientation of policies and tried to orientate scientific and technological personnel to the correct track that would yield more achievements. At one stage, some scientific and technological research units deviated by pursuing profits from technology trade and were unwilling to tackle the task set to them by the state. We stipulated that after the scientific and technological personnel had completed the tasks assigned to them by the state, a certain proportion of funds put into the tasks can be used as rewards for those personnel, so that they would both actively participate in technology market activities and enthusiastically tackle tasks assigned to them by the state. In the past 3 years, Shenyang has yielded 2,349 items of technological achievements, of which 19 were innovations internationally, 173 reached international standard, 29 won the national scientific and technological progress award, and 43 won the national invention award.

### 3. Implementation of Scientific and Effective Management, Guaranteeing Healthy Development of the Technology Market.

In the course of development of the technology market, lack of control appeared in some aspects for a time. This was mainly shown in the inclusion of nontechnological items that tried to pass off as technological items in the technology market. For example, some units took advantage of the technology contract which permitted the special treatment of allowing the withdrawal of monetary rewards and tax exemption. They also tried to pass off some processing contracts, goods orders, or even machine tool sales contracts as technology contracts. Some intermediate organizations that were responsible for verifying technology contracts were also involved in operating the technology trade. Some of these intermediate units stamped their seal on a contract and charged a fee, when in fact it was just another form of apportion. Also, some units did not include their technology trade into their financial management and formed a separate "small treasury" of their own. Yet other units and individuals sought illegal profits in the name of technological consultation and service and harmed other enterprises. We realized from this that while continuing to encourage the active development of the technology market, we should employ scientific and effective management so as to guarantee the technology market to develop along a correct track. In July 1986, under the direction of the coordinated guidance group of the national technology market, we started pilot work on technology market management.

In the pilot work, we established the management principles of "centralized guidance, operation by many, convenience for the grass roots, and advantage to both buyers and sellers." We also adhered to the principle of

separation of market operation from market management. We divided the whole technology market of the city into three tiers. The first tier was management. A coordinated guidance group for the technology market was set up to be responsible for the overall coordinated guidance of the entire technology market in the city. The city scientific and technological commission was to be responsible for the unified management of the technology market of the entire city. The scientific and technological committees at the county and district levels would be responsible for the management of the technology market at their respective levels and for organizing work on contract reaffirmation, registrations, and statistics for the technology market. Departments such as industry and commerce, taxation, banking, finance, and notary were to be responsible for the management and supervision within their own scope. The second tier was intermediate technological service. All systems were to establish intermediate technological service organizations to provide intermediate service for transactions on technological items. The third tier was the management of technological development by scientific research institutes, institutes of higher education, industrial and mining enterprises, and people-run undertakings. As departments responsible for the function of technology trade for their respective units, they were responsible for the unified management and coordination of technology trade activities in their own departments. The establishment and division among the three tiers clarified all kinds of relations and enabled the formation of the technology markets of the entire city into a network.

In the actual work we treat the technology market as a system. We consider its wholeness and interrelation in policy formulation, contract registration, examination and approval of organizations, and statistical work. We also implement the principle of the "four unifications" and established a relatively integrated management system.

### Several Questions That Merit Attention

The technology market is a newborn phenomenon in China. In order for it to grow as fast as possible, we should pay attention to resolving the following questions.

#### 1. Change in Thinking and Concept.

The technology market was developed from the eradication of old concepts and establishment of new ones. When the technology market was first set up, many enterprises and organizations did not understand the nature of the involvement of scientific research units and institutes of higher education in the technology trade. They thought these departments were making illegitimate money because they were selling technological achievements produced with funds for public undertakings. Therefore, these enterprises and organizations were unwilling to spend money on buying technology. Some

scientific research units themselves viewed as illegitimate their transfer of technology with compensation and so operated the dealing at a loss. Some people even viewed intermediate organizations in the technological development as "briefcase companies" or "second-hand dealers." This revealed to us that ossified thinking and concepts formed in the old systems was still rather serious. It also revealed that some comrades were still not clear about policies on the technology market. Based on this reality we carried out widespread and in-depth publicity work. We explained the necessity of developing the technology market with theory, policy, knowledge and typical cases, and strengthened people's tolerance for the commodification of technological achievements. We drew boundaries between legitimate income and illegal profit and between the necessary intermediate organizations and "briefcase companies" or "second-hand dealers." We also aimed at changing the work of the science committee. Before, it only grasped planning items and research institutes under the city. We made it grasp the technology market as a key element of their work, set up a technology market office, and better direct change in thinking.

## 2. Obtain Support from Many Quarters.

The technology market is a complex system. It is closely related to such departments as banking, finance, taxation, industry and commerce, and personnel. Support must be obtained from leadership at all levels and all departments in order that the technology market be operated well. For the past few years, the leading comrades of the municipal party committee and the municipal government have been enthusiastically supporting the technology market. We worked hard to place the technology market into the large market of the city and took initiative to strengthen links with departments concerned through many channels and in many ways. Given the temporary uncertainty of some state policies, the city bureau of administration and management of trade and industry adopted a series of modified measures to vigorously support the work of technological development organizations. Based on the reality in Shenyang, the taxation bureau of the city granted tax exemption on new products developed by scientific research units and enterprises and on those that were introduced, reproduced and produced to fill the gaps in Shenyang. To resolve the problem of insufficient funds for the technology trade, the finance bureau of the city allocated 10 million yuan as circulation funds for the technology trade to help medium and small enterprises to purchase technological commodities. The bank actively coordinated with technological development by pooling and granting special loans. The coordination and support of these departments have played an important role in the development of the technology market.

## 3. Continuously Study New Conditions and Resolve New Problems.

In the course of the development of the technology market, new contradictions and problems continuously surfaced. We did not avoid them or let them be. Rather, we tried to solve them by studying them. In 1986,

Shenyang implemented the separation of market management from market operation. Many intermediate organizations could not adjust to the change from management and operation orientation to operation and service orientation. For a time they were passive about their work. In order to resolve this problem, we repeatedly held meetings to discuss how to make intermediate organizations fully perform their function in the new situation and how to make them adjust to the change smoothly. Regarding new problems that are not clear yet for the time being, we do not hastily look for a conclusion. We would rather understand them well and gradually resolve them by grasping typical cases and carrying out experimental work. For a time there was much debate in society on the issue of scientific and technological personnel doing spare-time work. We repeatedly studied and organized pilot studies on spare-time work in more than 10 units, such as the municipal machinery and electricity bureau, and laid a foundation for improvement in resolving this problem.

## 4. Strengthen Personnel Training.

To run the technology market well there is need for special personnel that understand technology, know how to operate a market, are well-informed, and are good at coordinating. To build such a contingent, since 1986, we have been running classes to train personnel for the technology trade. Training has been provided in such aspects as operation, management, law, and others. Those who passed the examination were issued a license in technology trade. So far the training classes have been run 11 times. About 1,000 people have been trained for the technology trade. They began to form a core group for the trade. We also paid attention to the building of a theory contingent. We carried out relevant theoretical studies by organizing seminars on such subjects as "setting the scope of technological commodities" and "the functions of technological intermediaries" at different points of time. We also organized academic writing that would have practical value in the forms of books and articles.

In the course of the development of the technology market in Shenyang, the channels, capacity, and coverage of the market still have not met all the demands of the economic construction. The development of the technology trade is not balanced yet. All these questions await resolution step by step. We are in the process of formulating a comprehensive plan to deepen the development of the technology market in Shenyang. We are determined to run the technology market better in order to contribute more to speed up technological progress in Shenyang.

**Bright Prospects for Civilian-Run Scientific and Technological Undertakings**  
*40050158f Beijing HONGQI [RED FLAG] in Chinese*  
*No 4, 16 Feb 88 pp 27-29*

[Article by Chen Shengwu [7115 4939 2976]]

[Text] Guided by the line of the 3d Plenary Session of the 11th CPC Central Committee, China's civilian-run scientific and technological undertakings went through

some twists and turns in 1987 and became an important force. There are now close to 10,000 such undertakings, employing some 150,000 full-time workers, of which about 50 percent are scientists or technicians. A large number of part-time scientific and technological personnel are also involved in these undertakings.

The "Decision of the CPC Central Committee on the Reform of the Scientific and Technological Structure" affirmed the practice of relying on collectives and individuals to run scientific research or technical service undertakings. In January 1987, the State Council drew up a set of "Regulations on Further Promoting the Reform of the Scientific and Technological Structure," once again urging scientific and technological personnel to step out of their research institutes, universities and colleges, and government institutions and go to cities and towns as well as the countryside to start their own undertakings in the fields of technological development, technical service and technology trading. They can either apply for a transfer, ask for no-pay leave, or resign from their units. Because these kinds of undertakings are organized and run by the scientists and technicians themselves and do not require any investment or staff allocation from the state, they are generally called civilian-run scientific and technological undertakings. Some of the entrepreneurs of these scientific and technological undertakings run enterprises (such as companies, factories and farms); some of them run institutions (such as research institutes, schools and hospitals); and some devote themselves to inventions, rendering their service directly to China's industrialization, the commercialization, socialization and modernization of production, and the people's livelihood.

Seen from recent developments, civilian-run scientific and technological undertakings indeed have strong vitality and show distinct features of reform.

First, they are run by the scientists and technicians themselves. Scientists and technicians can make their own policy decisions in accordance with law without unnecessary administrative intervention. Like their peasant counterparts, entrepreneurs of civilian-run scientific and technological undertakings truly have decisionmaking power in their own hands, and they have their responsibilities, rights and interests. In many places this characteristic feature is summarized as the "five-self principle," meaning that the scientists and technicians can make their own decisions in accordance with law, work together on a voluntary basis, raise their own funds, operate independently and assume sole responsibility for their own profit and loss. By giving scientists and technicians a free hand, they can write, direct and perform their own acts on stages they erected themselves. In this way, they can give maximum scope to their resourcefulness and perform one excellent act after another.

Second, they have discarded the notion of the "iron rice bowl" and the practice of "everybody eating from the same big pot," and truly implemented the principle of to

each according to his work and more pay for more work. Members of the staff are employed for fixed periods, and distribution is based on contribution and actual performance rather than on seniority and academic qualifications. Since there are no longer any "iron rice bowls," people can only obtain material benefits when they have fulfilled their duties. There are now greater disparities in the distribution of personal income, and it makes a lot of difference whether or not one works hard and does a good job. Accordingly, everyone strives to make more contributions, show his best, work with devotion and improve the efficiency of his work. "When the river rises the boat goes up." People no longer simply compete with their fellow workers to see who earns more. Rather, they tie their own destiny to the business performance of their enterprises. They feel more attached to their undertakings and their undertakings have more to attract them. Because there is a genuine combination of responsibilities, rights and interests, these undertakings are imbued with vitality. This is obviously the new mechanism which we seek in our reform and efforts to revitalize the economy.

Third, they take scientific and technological progress as their driving force and pillar. Over 95 percent of the civilian-run scientific and technological undertakings are engaged in technological development, technical counseling, technical training, technical service and technology trading. A basic characteristic of scientists and technicians is that they all have professional skills and are therefore in a position to promote the commercialization, socialization and modernization of production. They can, in accordance with market trends, social needs, their own capability, development trends at home and abroad, as well as the objective laws of the economy, choose a line of service that suits them best, develop new products, new skills and new technologies in good time and constantly improve on them. This is the unique strong point of scientific and technological undertakings.

Fourth, they closely combine science and technology with the economy. Since their birth, they have resolutely discarded with the practice of concentrating on research or production alone. All economic pursuit and no research will result in a lack of stamina; all research and no economic pursuit will leave one with nothing to fall back on. An undertaking cannot exist without economic activities even for a single day. Thus, the combination of science and technology with the economy is a natural attribute of civilian-run scientific and technological undertakings. A popular form of combination is one which combines technology with industry and trade. Technology refers to scientific and technological development; industry refers to production; and trade refers to operation and marketing. The combination is an organic one which both links up and promotes the different constituent parts. There are also "five-in-one" combinations which combine science and technology with education, production, trading and service. In short, it is this kind of combination that has given them their competitiveness in the market.

Fifth, they make an effort to make use of modern methods of management. Efficiency is life and time is money. Civilian-run scientific and technological undertakings must have a flexible and efficient mechanism of operation and must make use of modern methods of management before they can achieve good economic results. The practice of "everybody eating from the same big pot" can neither tolerate nor bring about modernized management. Many entrepreneurs of civilian-run scientific and technological undertakings have come to realize that the gist of modernized management is to "respect knowledge and talents" and uphold the practice of "from each according to his ability, to each according to his work." The report delivered to the 13th CPC National Congress said: "In this way, people can put their specialized knowledge to best use and give free play to their strong points, and they will feel they have bright prospects." It is precisely because Chinese entrepreneurs of civilian-run scientific and technological undertakings have understood, grasped and put into application these principles of socialist management that mechanisms full of vigor and vitality have come into being. Examples of these are the highly independent managerial mechanisms, the benign circle of manpower mobility mechanisms, selection mechanisms with the market as the axis, morale boosting mechanisms, mechanisms which facilitate extensive market cooperation and competition, as well as mechanisms of targeted management and self-discipline.

Because these undertakings have the above characteristics and have established their own working mechanisms which are catered to the development of the socialist commodity economy, they are in a position to effectively arouse the initiative and creativity of the scientists and technicians, nurture a group of scientific and technological entrepreneurs, open up a new situation where the state, the collectives and the individuals work together to run scientific and technological undertakings, and bring about an excellent environment in which human resources can be turned to best account. Our civilian-run scientific and technological undertakings have achieved excellent results and made indelible contributions to the community. Take the civilian-run scientific and technological undertakings in Beijing's Haidian District for instance. In 1985, their gross sales amounted to 120 million yuan, or 11.76 percent of the total value of industrial and agricultural production in the district. In 1986, the figure rose to 290 million yuan, accounting for over 20 percent of Haidian's total industrial and agricultural production. The 1987 figure is expected to exceed 700 million yuan, or over 37 percent of the total. In Zhongguancun, the per capita output value and per capita profits of civilian-run companies on Electronics Lane [Dianziyitiaojie 7193 1311 0001 2742 5894], including companies like "Sitong," "Jinghai," "Kehai," "Xintong" and "Beifang," are in excess of 300,000 yuan and 40,000 yuan respectively. In 1987, "Sitong" achieved a per-capita sales figure of 760,000 yuan and

per capita profits reached 60,000 yuan, which are about the same as those of IBM (IBM's per capita sales are registered at \$127,000 and per capita profits at \$11,900).

At the same time, civilian-run scientific and technological undertakings have produced numerous remarkable results and nurtured large numbers of outstanding talents. They have demonstrated a strong potential for rendering support to the town and township enterprises, changing selected conventional industries and developing new technologies. Preliminary statistics show that over 70 percent of the achievements of 308 civilian-run scientific and technological enterprises in Shanghai, Taiyuan, Guilin, Zhengzhou, Qiqihar, Kunming, Jinan and three other cities have found their way into town and township enterprises and small and medium-sized enterprises, as a result of which 221 of these enterprises (163 town and township enterprises, accounting for 74 percent; and 58 small and medium-sized enterprises, accounting for 26 percent) have turned loss into profit and found their suitable and marketable products. According to investigation, in 1986 Beijing's 200 civilian-run scientific and technological undertakings developed a total of 1,355 scientific and technological achievements and new products, of which 564 items, or 41.6 percent, were made use of in the capital's economic construction; while 297 items, or 21.8 percent, were made use of in other provinces and cities, and 16 items, or 1.2 percent, were marketed internationally. The rate of application of these scientific and technological achievements is very impressive indeed. Electronics Lane in Zhongguancun, which is praised by Chinese and foreign journalists as the flower of China's civilian-run scientific and technological undertakings and is mainly engaged in the development of computers and their application, has made outstanding achievements in such areas as office automation and computer engine room development. The value of the computers produced by these undertakings now accounts for 28 percent of the national total. Between 1984 and 1987 computer products worth more than 400 million yuan were sold and training was provided to more than 30,000 persons. Zhongguancun thus became an internationally and domestically renowned electronics and computer market.

In terms of the development of socialist civilization, civilian-run scientific and technological undertakings have also made important contributions. The action taken by the entrepreneurs of these undertakings in resolutely doing away with the practice of "iron rice bowl" is itself an indication of their lofty spirits. Most of these men of action have a high scientific and cultural level and are adept at professional skills. They are imbued with creativity and the enthusiasm to devote themselves to the "four modernizations," and pay attention to the assimilation of advanced achievements at home and abroad. They energetically advocate industrial culture and carry out effective ideological work and on-the-job training within their undertakings to improve the ideological and professional qualities of the staff

members and workers. With their own actions, they have announced to the whole society that a person's value lies in his contributions. They have demonstrated their amazing tenacity and persistence in the face of difficulties, and forged ahead in the midst of competition. Everyone must do solid work; products must be functional; work must be efficient; and undertakings must produce solid achievements. An undertaking must value its reputation above all else if it is to achieve good performance. Thus the staff and workers of an undertaking must work honestly, run their undertaking in accordance with law, constantly improve the quality of their service and provide better service to the people so as to cultivate a stronger sense of trust and harmony between people.

Civilian-run scientific and technological undertakings have opened up a new road for the cultivation and establishment of new organizations, new mechanisms and new standards necessary for the development of the productive forces. They have played an important role in developing China's productive forces and raising its labor productivity, apart from pushing forward the development of its science and technology and bringing about economic prosperity. It has been borne out by practice that they constitute an important and indispensable force in building socialism with Chinese characteristics.

However, reform is never plain sailing. Since "the old left habits of thought are deep-rooted" in our country, civilian-run scientific and technological undertakings have gone through all kinds of hardships and difficulties in their development. Nearly every step forward was met with resistance of one sort or another. The main source of the obstacles came from "the narrow mentality and conservative habits of the small-producers." Many people were accustomed to the rigid ways of the past when all undertakings were "large in size and collective in nature." They did not understand the necessity and significance of developing a diversified economy in the primary stage of socialism, were accustomed to the egalitarian practice of "everybody eating from the same big pot," and did not like the idea of other people getting paid more for better performance. Unfair accusations were hurled at the civilian-run scientific and technological undertakings when they first came into being. They were subject to censure and called "money-seeking," "ambitious" and "profiteering," and their origin was denounced as "dubious." However great their contributions, emotionally they were not accepted as orthodox socialist undertakings. There were even cases where such undertakings were arbitrarily taken over by the government.

Civilian-run scientific and technological undertakings have a very short history. As young saplings, they need the fostering and care of the public. They are still confronted with numerous problems and difficulties. A lot remains to be done in our efforts to bring about the further development of civilian-run scientific and technological undertakings. As clearly pointed out in the report to the 13th CPC National Congress: "The primary objective of scientific and technological work is to revitalize the economy." "We must accelerate reform and set up a mechanism that closely

integrates science and technology with the economy." The objective of our civilian-run scientific and technological undertakings is completely in accord with the above. The basic background of these undertakings was that our scientists and technicians were not resigned to seeing China remain poor and backward, seeing large numbers of scientific and technological achievements which they had successfully developed remain "gifts, samples and exhibits" year after year, and seeing themselves wasted in overstuffed organizations. Under the guidance of the party's policies of reform and opening up, they smashed the fetters of the old system, got themselves organized and ran their own scientific and technological undertakings in an effort to bring about the socialization of science and technology and the commercialization of technological products at an earlier date and make their contributions toward accelerating the development of the economy.

"A fully developed commodity economy is an unavoidable stage in the development of the economy and the indispensable, basic condition for the socialization and modernization of production. So far as ownership and distribution are concerned, absolute perfection and egalitarianism are not what is required in a socialist society. In the primary stage it is particularly important to develop diverse sectors of the economy, provided that public ownership remains dominant; to have diverse forms of distribution, provided that distribution according to work is the principal form; and, with the objective of common prosperity in mind, to encourage some people to become well-off first through honest work and lawful business operations." This guiding principle for the primary stage of socialism, itself a principle of far-reaching significance, has pointed out the direction for the further development of civilian-run scientific and technological undertakings. We firmly believe that under the guidance of the basic line for building socialism with Chinese characteristics put forward at the 13th CPC National Congress, and with the deepening of the reform as well as the formulation and implementation of specific policies of state support for their further development, civilian-run scientific and technological undertakings will develop soundly and steadily and make still greater contributions to socialist modernization.

#### **Preface to 'Forum on Socialist Commodity Economy'**

*40050158g Beijing HONGQI [RED FLAG] in Chinese No 4, 16 Feb 88 pp 30-32*

[Article by Xue Muqiao [5641 2550 2890]; first paragraph is HONGQI introduction]

[Text] These serialized articles under the heading "Forum on Socialist Commodity Economy" by HONGQI will be published by the HONGQI Publishing House as per requests of many readers. This is a preface to the book written by Comrade Xue Muqiao.

The issue about commodity economy has been a prominent one greatly emphasized by the economic theoretical circles in various socialist countries. For a long time in the past, nearly all economists always tended to think of a planned economy as conflicting with a market economy, and acts of planned readjustment as conflicting with the market readjustment. They were not bold enough to distinguish a socialist planned economy from a planned commodity economy based on the public ownership of the means of production. As a result, this issue remained unsettled despite decades of repeated discussions by various economists. No breakthrough point was made until the bold proposal of "planned commodity economy" suggested by the "Decision of the CPC Central Committee on Reform of the Economic Structure" adopted by the 3d Plenary Session of the 12th CPC Central Committee. According to the report "To Make Progress in the Direction of Socialism With Chinese Characteristics" delivered at the 13th CPC Congress, "the system of socialist planned commodity economy should be a unified system marked with planning and market mechanism." It further pointed out: "We must carry out the work of planning on the basis of commodity exchange and the law of value." This is an additional breakthrough point. It is therefore significant that the HONGQI magazine publishes the "Forum on Socialist Commodity Economy" with an aim to explain and study the matter.

The Shanghai symposium on "commodity production and the law of value" held in 1959 was a significant summary of the development of studies on socialist economic theory in the 1950's. Three different viewpoints were expressed at the symposium. The first one was the principle of no commodity, which held that the commodity exchange in socialist society was actually a planned exchange of various types of actual labor in society, and of the use values arising therefrom, which differed in nature from the commodity exchange (exchanges among private producers) in a capitalist society. The currency of a socialist society was therefore the labor certificate as mentioned in the "Critique of the Gotha Program" by Marx, rather than the original meaning of currency. Only a few people adopted this viewpoint. After the nationwide establishment of people's communes in 1958, Chen Boda announced that the people's communes were already in the transitional period leading to ownership by the whole people, and the category of commodity was therefore abolished. Consequently, this principle became very popular in the following 6 months. In order to collect tangible data for this principle, a university even sent some 200 to 300 students to the people's communes for conducting a 2- to 3-month-long research. Before it held an academic forum on this issue, however, Chairman Mao criticized this principle and pointed out that the people's communes were still part of the economy owned by the whole people. Therefore, only a handful of people supported this principle when the forum was held.

The second viewpoint was basically the same as the view expressed in textbooks published by the Soviet Union. It

held that the exchange between the economy owned by the whole people and that owned by the collectives was still the commodity exchange, and the sales of consumer goods to laborers by the state was no longer purely the commodity exchange because labor power was no longer regarded as a commodity. Supporters of this thinking took different standpoints on exchange among enterprises owned by the whole people. Some of them held that what was exchanged was no longer a commodity, though it had the appearance of commodity. The rest held that the enterprises owned by the whole people had to practice independent accounting so that they must take the form of exchange at equal value, which showed the nature of commodity exchange in some areas.

At the same time, they discussed issues concerning the relations between planned economy and the law of value. Many comrades held that the more prosperous the economy, the less important the role of the law of value. The situation resembled a seesaw where one side must be down when the other side was up. Some comrades (including me and Comrade Sun Yefong) disagreed on this thinking. They held that the importance of the law of value remained even after the implementation of planned economy. But we did not have a thorough understanding on the issue. As many people then advocated the practice of planned pricing, the planned distribution of means of production and the planned supply of key consumer goods, I repeatedly expressed that the role of (automatic readjustment by) the law of value had been confined. Comrade Sun Yefong held that the law of value was an objective rule which should not be confined. Acts of limiting, remolding or abolishing the role of the law of value were nonsense. As he also advocated the practice of planned pricing and opposed acts of giving full play to the role of automatic readjustment by the law of value, however, he blamed the law of value for being inflexible. Actually, we shared the same point of view.

The third one was the bold suggestions on "formulating plans on the basis of the law of value" proposed by Comrade Sun Yefong. Comrade Yefong had just returned from his visit to the Soviet Union when the symposium was held. Therefore, he did not deliver any speech at the meeting. In June 1956, however, he published a startling thesis entitled "Basing Our Work of Planning and Statistics on the Law of Value." Shortly after the convention of the academic forum in July and August 1959, he further wrote a voluminous book entitled "On Value" during his month-long vacation in Qingdao. This book was 50,000 to 60,000 characters in length, criticizing many contemporary works by comrades. But he held that not only must a society abide by the law of value during the stage of socialism, but must also strictly follow it at the stage of communism. Over a long time in the past, Comrade Yefong was unjustly criticized because he "excessively praised the law of value." A review of the situation shows that it was not the case. Comrade Yefong held that the socialist economy was different from a capitalist one by way of

replacing market mechanism and acts of sales with practices of planning and planned distribution, in addition to the abolition of private ownership. Moreover, he held that the law of value functioned in a commodity economy by way of market competition; whereas in a planned economy we should voluntarily estimate its function through calculation. Now, the law of value discussed by many economists is actually the concept of determining prices through a free market. Everybody understands that this is not the way adopted in our work of pricing. We can therefore see that the "law of value" proposed by Comrade Yefong was unable to let the law of value perform market readjustment. This kind of "law of value" has actually become a ossified thinking.

The reason that I told this story is to show that though China (as well as other socialist countries) experienced long-standing disputes on commodity economy and the law of value and its acts were limited by the contemporary conditions, it did not understand that a socialist economy is a planned commodity economy. Rather, it advocated that the state should regulate the price of commodities produced by the state-owned and collective economies, and we should not allow the role of automatic readjustment by the law of value. This is fundamentally different from the exposition adopted by the report of the 13th CPC Congress.

We had a gradual understanding of this issue when we reformed the economic structure following the 3d Plenary Session of the 11th CPC Central Committee. In 1979, we sharply increased the purchasing price of agricultural products, as well as the sales price of eight major types of nonstaple food in urban areas. The prices were therefore almost the same as their value. But this still depends on the practice of "voluntarily estimating the function (value) through calculation by the state." At the same time, we gradually replaced the system of monopolization by the supply and marketing cooperatives in the state-owned commerce and village commerce by the practice of simultaneous development of state-owned commerce, collective commerce and individual commerce. Because of the development of competition, the law of value, to a certain extent, began its role of automatic readjustment. The report of the 12th CPC Congress put forward that we must preserve the market readjustment in some areas while implementing the planned economy. It also divided the practice of planning into acts of mandatory planning and guidance planning. The main function of mandatory planning was to realize its goal by using the economic leverage. The document highly advocated that we must greatly develop the production and exchange of commodities. It, however, did not boldly propose the development of commodity economy so as to prevent people from confusing it with the practice in capitalist economy. Though we took as the principle that "the planned economy is the focal point and market readjustment is the supplement" and regarded it as a fundamental issue concerning reform of the economic structure, we still have not got rid of the outdated concept of thinking of acts of planning as conflicting with the market mechanism.

The proposal by the 3d Plenary Session of the 12th CPC Central Committee that the socialist economy is a planned commodity economy based on the public ownership is a major breakthrough point in terms of socialist economic theory. Under the guidance of the new theory, we boldly lifted the restrictions on the pricing of nonstaple food in the urban areas in 1985, so that the role of readjustment by the law of value might function. A number of petty commodities had been gradually put under the market readjustment before this. On the means of production, we originally tended to practice planned distribution by means of the planned pricing. However, a rapid development of additional production and construction projects took place following the decentralization of decisionmaking power to localities and enterprises. Therefore, we could not but allow the sales of commodities through negotiations in addition to implementing the planned distribution. The scope of such form of sales was later further enlarged. Recently, many large and medium-sized cities have established markets for exchanging the means of production, and they are gradually replacing the practice of planned distribution, which is the primary practice, by the exchange of commodities in markets.

The report of the 13th CPC Congress further pointed out: "The system of socialist planned commodity economy should be a unified system marked with planning and market mechanism." It further pointed out: "The establishment of socialist planned commodity economy on the basis of public ownership has made it possible for us to voluntarily maintain a coordinated development of national economy. Our task is to become good at turning such possibility into reality by making use of the means of readjustment by planning and the market readjustment." Therefore, the task that "we must carry out the work of planning on the basis of commodity exchange and the law of value" proposed by the 13th CPC Congress was different from "formulating plans on the basis of the law of value" in the "replacement of market mechanism and acts of sales with practices of planning and planned distribution" proposed by Comrade Sun Yefong. According to Marx, the law of value was the law of commodity economy, without which there would not be the original meaning of the law of value. The term here referred to the law of value which was able to automatically give play to the role of market readjustment. The role of the law of value was determined by the function of automatically readjusting the market price and the supply-demand relations. Without this function, the law of value would only exist in name. Though the appearance of the proposals suggested by the 13th CPC Congress was similar to that by Comrade Sun Yefong, the two were actually different from each other. While the former was based on the commodity exchange, the latter advocated the replacement of commodity exchange by planned distribution. Therefore, I hold that the discussions on commodity economy are very important for us to correctly understand the spirit of the report of the 13th CPC Congress.



As the socialist commodity economy is a planned commodity economy based on public ownership, it is different from the unplanned commodity economy based on private ownership. We should also conduct discussions on these differences. Both the socialist commodity economy and capitalist commodity economy are commodity economies and share some common features. Therefore, the two are subject to a common law—the law of value. The plans of a planned commodity economy can only be the ones combining the internal factors of market, rather than disturbing the market. Macroscopically, we must do well in this respect by means of planning. Microscopically, we must adopt a relaxed attitude toward and invigorate the situation through the market. At present, it is very difficult for us to correctly explain this issue, and we must conduct further studies in this respect.

The party has gradually got a thorough understanding of theory on socialism following the 3d Plenary Session of the 11th CPC Central Committee. It has made major contributions to the development of Marx' doctrine of socialism. At present, this new development is yet to be thoroughly understood by the economic theoretical circle and workers in charge of the actual work. Therefore, it is necessary for us to arrange forums for all economists across China. Our knowledge of the truth is constantly developing. Therefore, we cannot simply believe that we have completely understood the absolute truth. Rather, we can only understand the relative truth and make it as close as possible to the absolute truth. This is because everything in the world is constantly developing, so is the truth. Our discussions must, therefore, embody the rich contents of the report of the 13th CPC Congress. In addition, we must constantly sum up our practical experience in order to further improve and develop the future implementation of the basic line of the party.

#### **An Appraisal of the 12th Edition of Samuelson's 'Economics'**

40050158h Beijing HONGQI [RED FLAG] in Chinese  
No 4, 16 Feb 88 pp 33-39

[Article by Gao Hongye [7559 7703 2814]]

[Text] The work "Economics," written by the American economics professor, Samuelson, is a textbook representative of orthodox economics today in the West. The book has won the author a Nobel Prize. Since the first edition was published in 1948, there have been 11 further editions, total sales of these have exceeded 3 million copies, and the work has been translated into dozens of languages. Among them, the 10th edition was translated into Chinese and published in our country.

The writer of this article analyzed and commented on the 10th edition in the preface to the Chinese translated version and thus this article will not discuss that again.

There appears to be no difference between the 10th edition and the 11th edition. However, in the 12th edition which appeared in 1985, Samuelson has made

major revisions and additions. This article will focus on introducing the revisions and additions of the 12th edition and appraising these.

The most major revision and addition to the 12th edition is that, on the basis of the neoclassical synthesis school, it further synthesizes the ideas of major subsequently-founded macroeconomics schools, and attempts to establish a compromise system which can be universally accepted by all schools. Through this further synthesis, Keynesianism retreats from its position as the only truth in macroeconomics to where it is but a component part of macroeconomics.

In order to explain and assess this aspect, the first part of this article will explain the theory of the neoclassical synthesis school before the 12th edition of "Economics." This will provide a basis for further discussion later in the article. The second part of the article will sum up the various schools further synthesized in the 12th edition while the third part will explain how the 12th edition has synthesized these. The fourth and final part will analyze and appraise the synthesized theory.

#### **I. The Theory of the Neoclassical Synthesis School Prior to the 12th Edition of "Economics"**

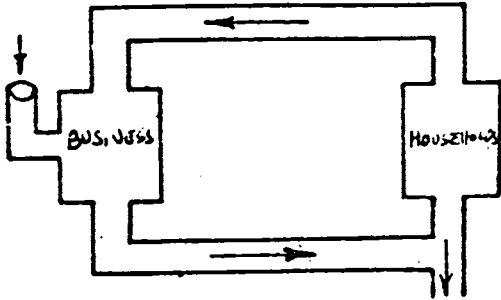
Prior to the 1930's, traditional Western economists, as represented by Marshall, held that the capitalist market mechanism could ensure that investment automatically equals savings and thus total supply and total demand would tend toward equilibrium. As the market mechanism could automatically maintain full employment, the state had no reason to intervene in macroeconomic activities and the best policy was thus nonintervention.

The development of state monopoly capitalism and the worldwide crisis of 1929 meant that the traditional theories no longer suited the needs of the bourgeoisie, either on the political level or the practical level. Thus, Keynes put forward a different theory. He asserted that investment need not necessarily always be equal to savings under full employment conditions, and thus total supply and demand will not always be equal, and that the difference between the two could produce a depression in economic activities. In order to stabilize macroeconomic activities, the state would have to implement monetary policies and fiscal policies to intervene in economic activities. Keynes stressed the importance of financial policies and held that the effectiveness of fiscal policies is far greater than that of monetary policies. Thus followers of Keynesianism are also referred to as fiscalists.

In order to make the explanation easier, we can use a diagram often used by Western scholars. This diagram also appears in all the editions of "Economics." The diagram is of a cylindrical pipe system. The flow of water in the pipe represents the national income of a society (or country). "Business" on the left of the pipe represents



the entirety of the enterprises in this society. The "households" on the right side of the pipe represents all the members of the society, including laborers, capitalists and landowners. At the top left and the bottom right of the diagram there are respectively a water inlet and a water outlet.



[FBIS note: This is a simplified version of the diagram that appears on p 106 of the 12th Edition of Samuelson's "Economics." HONGQI used "qiye" (0120 2814) for "business" and "gongzhong" (0361 5883) for "households."]

For the moment, we will ignore this inlet and outlet and imagine them to be blocked. Then suppose that over a period of time (say a year) all the enterprises of this society produce final products with a total sale price (or sale value) of 100 yuan. (Footnote 1) (To simplify the explanation, we will here use yuan as the value. Using 100 million yuan or 1 billion yuan as the unit would not affect the discussion.) In order to produce this 100 yuan of products, the enterprises must purchase from the public "production factors" such as labor, capital-use rights and land-use rights. If profit is also considered a cost which must be paid in purchasing production factors (such as risk and management), then in order to produce 100 yuan the amount of funds it is necessary to expend will also naturally be 100 yuan. (Footnote 2) (This also explains the most basic concepts of national income in Western economics. The 100 yuan sale price of the products is national income calculated on the basis of final products. The 100 yuan cost of production factors is national income as calculated on the basis of the cost of production factors. The two are naturally equal.)

Now, the square containing the enterprises in the diagram has 100 yuan of final products while 100 yuan of money has flowed via the lower pipe to the public. The 100 yuan of final product is considered to be the total supply of this society, while the money spent by the public to purchase consumer goods and capital goods from the enterprises is considered the total demand of society. If the public uses the entire 100 yuan of money to purchase consumer goods and capital goods then the total demand will be 100 yuan. In such a situation, total

demand will equal total supply. Thus 100 yuan of money will flow along the pipe at the top pipe to the square representing enterprises and the products produced by the enterprises will be completely sold. Thus the enterprises will in the next period of time (say, a year) be again able to produce, on the same scale and in the same quantity, 100 yuan of final products. In this way, the 100 yuan of money flow will repeatedly circulate around the pipe. If we assume that 100 yuan represents the national income of this society under full employment, this society's macroeconomic activities are in a full-employment situation. (Footnote 3) (But Western scholars believe that this situation does not necessarily represent a simple reproduction process. According to their explanations and along with the accumulation of capital and the rise in the level of technology, the final real product, that is, the real national income, will continue to increase.)

However, Western scholars hold that because of the existence of the above-mentioned inlet and outlet, the problem becomes a little more complex. The water outlet on the bottom right-hand side of the diagram represents savings by the public. The public will not necessarily use their entire 100 yuan in purchasing products from the enterprises. They may, for example, save 40 yuan and use the remaining 60 yuan to make purchases. In this way in the market there will be 100 yuan of total supply but only 60 yuan of total demand. As demand is smaller than supply, some products remain unsold and enterprises cut back on their scale of production. The result is that the amount of national income in the pipe is reduced and the whole society enters a situation of unemployment and depression. However, in determining whether or not this situation will occur, we also have to look at the inlet at the top on the left-hand side. The water injected at this inlet represents the investment by the capitalists among the public. If we assume that the capitalists invest 40 yuan, this will precisely make up for the 40 yuan decline in public demand due to that amount being saved. In this way, total demand will still equal total supply and the society will remain in a situation of full employment.

Of course, investment need not necessarily be equal to savings. If the former is greater than the latter and, for example, investment is 50 yuan, the volume of total demand will be 110 yuan (50 + 60 = 110). At that time, as supply cannot meet demand, a situation of inflation and overheated economic activity will occur. In the opposite situation, when the former is less than the latter and investment is, say, 30 yuan, total demand will be 90 yuan (30 + 60 = 90). At that time, as supply will be greater than demand, products will sell poorly and a situation of unemployment and depression will occur.

As far as Western scholars are concerned, the entirety of macroeconomics can be summed up in research into two questions. 1) The question of whether or not total demand is equivalent to total supply. If the two are unequal, it may lead to macroeconomic fluctuations. 2)

What policies are to be used to counter the fluctuations. The traditional Western scholars and Keynesianism hold different views on these two questions. The other schools of Western macroeconomics which this article is going to introduce also have their own views on these two questions.

The traditional Western theory holds that in the above-mentioned diagram, the investment inlet and the savings outlet are linked together, that investment is identical with savings and that total demand is identical with total supply. Thus, there is no need for the state to intervene in macroeconomic activities. Keynesianism asserts that there is no linkage between the investment inlet and the savings outlet. Investment need not always be equal to savings under a situation of full employment, total supply need not always be equal to total demand and the national income flowing in the pipes can thus fluctuate up and down. In order to stabilize macroeconomic movement, the state must implement fiscal and monetary policies which intervene in economic activities.

These two policies are not only contradictory on the theoretical level, but also clash in policy terms. In order to remove the internal contradictions and clashes between the Western economic theories, the neoclassical synthesis school, primarily represented by Samuelson, asserted that the equality of investment and savings under full employment conditions is a normal situation in capitalist macroeconomic movement, and that the deviation between the two only represents special instances. Thus, Keynesianism is a special case of traditional theory, and on the theoretical level there is no point of contradiction between them. When the special situation as described by Keynesianism occurs, the state must implement economic policies of intervention, but in general situations there is no need for intervention. In Samuelson's theoretical discussions, as the traditional theory is quite simple, the space it occupies is not great. Thus, Keynesianism occupies the most space and seems to constitute nearly the entire contents of macroeconomics.

This situation of Keynesian macroeconomic theory having an exclusive dominance in the world persisted from after World War II to the middle of the 1960's. Subsequently the phenomenon of stagflation became more serious in the Western world. Keynesianism could not provide a theoretical explanation for the phenomenon of stagflation and on the practical level could not provide an effective countermeasure. Thus, the neoclassical synthesis school and its representative work "Economics" gradually lost its position as representative of orthodox thought.

## II. Three Macroeconomic Schools Which Were Further Synthesized in the 12th Edition of "Economics"

Following the decline of the neoclassical synthesis school, in the Western world there have appeared many different economic schools. Three of these have had

quite great influence: the monetarist school, the supply-side school and the rational expectation school. The major content of the further synthesis in the 12th edition of "Economics" is the ideas of these three schools.

These three schools all hold that since World War II, the countries of the West have to differing degrees been subject to the influence of Keynes' theories, that they have implemented policies of state intervention in the economy, and that this has been a quite major cause of the stagflation which has appeared in the Western economies.

The monetarists hold that a major mistake in Keynes' theory is that it overlooks the negative effect of an excessive issue of money and believes that increased paper money issue can resolve the problem of unemployment, without being concerned about the inflation which follows. The monetarists also hold that under the influence of Keynesianism, the Western states have often increased government investment through fiscal policies. This is nothing more than the government investment replacing investment which would have been carried out by private investors. As the former is often used in nonproductive projects, such as strengthening national defense, while the latter is generally used in productive projects, the implementation of fiscal policies is in fact using nonproductive investment to replace productive investment. As productive investment declines, the number of enterprise employees will naturally decline and thereby, this will be partially responsible for the problem of unemployment. Further, a reduction in productive investment results in a reduction in the overall production of the whole society and therefore is a contributing factor in inflation. In brief, both the monetarists and the Keynesianists believe that the problems of capitalist macroeconomic movement mainly occur in the area of total demand, but the former opposes the stress which the latter places on fiscal policies. In the monetarists' view, fiscal policies are the root of stagflation and if these are replaced by the monetary policies they propose, all the problems can be readily solved.

The economists of the supply-side school hold that the origins of stagflation lie in Keynesian policies, but they have different ideas from the monetarists as to how this leads to stagflation. The supply-side school holds that the problems of Western macroeconomic movement come from the damage caused to total supply by Keynesian policies. The Keynesian policies expanded the expenditure of Western countries and in order to make up for this increase in expenditure, it has been necessary to increase tax rates. This has resulted in laborers and capitalists being unable to obtain their due wages and profits. This has had a damaging effect on total supply in two respects. First, it has harmed the workers' enthusiasm for labor and resulted in a reduction in overall social labor time and production volume. Second, it has dampened the enthusiasm of capitalists for investment. If

capitalists are unwilling to invest, the number of enterprise employees will naturally decline. When the two damaging factors are combined, in a situation of unchanging total demand, the total supply of social products and the number of enterprise employees will both decline. The result can only be the concurrent existence of unemployment and inflation, that is, stagflation. The supply-side school advocates reducing tax rates because a reduction in tax rates will revive the enthusiasm of laborers and capitalists, and as soon as enthusiasm is revived, the problem of stagflation will be resolved accordingly.

The rational expectation school puts forward at least two views. First, this school denies the correctness of the macroeconomic theory of Keynesianism. It believes that macroeconomic variables are but the sum total of microeconomic variables, and that microeconomic variables are the results of activities by individuals. For example, the macroeconomic variable of national income is a sum total of the incomes of all residents at the microeconomic level, while individual income is the result of individuals' labor activities. In the view of Western economists, the basic hypothetical condition as regards an individual's actions is: An individual's actions must accord with demands of the individual obtaining the greatest benefit. However, the Keynesian theory does not provide any argument to prove that the regularity of the macroeconomic variables it has researched accords with the hypothetical condition of an individual obtaining the greatest benefit. Thus they hold that Keynes' theory is wrong.

Further, the rational expectation school tries to use the incompleteness of information to explain the fluctuations of capitalist macroeconomic movement. This school asserts that in order to obtain the greatest benefit, the individual will try to make the most accurate predictions so that he can avoid blindness in his actions. For example, in the stock market, each person wants to correctly predict the future prices of shares and thereby obtain the greatest profit. Due to lack of full information, the predictions in the short term will not necessarily be correct. However, as time goes by, the amount of information will grow increasingly great and over the long term, people can correctly predict total supply volume under a full employment situation, and in accordance with the total supply volume predicted, decide on their own activities. In this way, the market mechanism will enable actual output volume to reach the full employment volume. At that time, even if the Keynesian policies change total demand to some degree, as total supply will not change, the result will be that only the level of prices will change. The real variables (such as employment volume and output volume) will not change. That is to say, in the long term Keynesian policies are ineffective.

The rational expectation school claims that in the short term, because people cannot obtain sufficient information, their actions have a certain blindness. Thereby,

they can bring changes to the volume of total supply, and the employment volume may be higher or lower than the levels under full employment. In this situation, even if Keynesian policies are implemented, it will be difficult for them to achieve any effect. This is because when information is insufficient, the government is likewise unable to make correct predictions, and therefore the policies it decides will be blind and impossible to implement.

Today, the above three schools have quite a degree of influence both theoretically and in terms of policy-making. This has greatly weakened the position of the neoclassical synthesis school as orthodoxy.

### **III. How the 12th Edition of "Economics" Synthesized the Above-Mentioned Three Schools**

In order to preserve the position of the neoclassical synthesis school, the 12th edition of "Economics" had to draw in various ideas of the above-mentioned three schools and put them together with the original ideas of "Economics." Samuelson admitted: "The 12th edition is the most sweeping revision since the landmark 1948 first edition... The chapters on economics now use the comprehensive aggregate supply and demand approach." (Footnote 4) (Samuelson and Nordhaus, "Economics," 12th edition (English edition), McGraw-Hill, New York, 1985, p viii) Through the use of this approach, "we thereby integrate different schools of thought—Keynesian, classical (that is, traditional Western economics—citer), monetarist, supply-side, rational expectation and modern mainstream economics (that is, the macroeconomic component of the neoclassical synthesis school—citer)." (Footnote 5) (Ibid., p viii) Here we will provide an introduction as to how the 12th edition of "Economics" uses the total supply and total demand method to synthesize together the ideas of the various schools and especially the ideas of the three above-mentioned schools.

First, looking in terms of total demand, in the 12th edition, total demand is composed of three components, namely consumption, investment and government expenditure. Of these, consumption is determined by the consumption trend, investment is determined by fiscal and monetary policies and government expenditure is determined by fiscal policies. Further, the taxation revenue aspect of fiscal policies can affect the consumption trend. Thus, the way to control total demand is to use monetary policies and fiscal policies. This is the same as the ideas in the various editions prior to the 12th edition.

The difference lies in that at least three ideas have been added:

1. The importance of monetary policies has been recognized. Samuelson writes: "Early Keynesianism has benefited from the 'rediscovery of money.' Money definitely

matters. In their early enthusiasm about the role of fiscal policy, many Keynesians unjustifiably downgraded the role of money." (Footnote 6) (Ibid., p 330)

2. It is held that in actual implementation the mix of fiscal and monetary policies can change the composition of national income. For example, by utilizing fiscal policies to a greater degree it is possible to have the proportion of consumption and government expenditure in national income rise. Also, using monetary policies to quite a great degree can lead to an increase in the proportion of private investment in national income. (Footnote 7) (Ibid., pp 351-352) This is tantamount to acknowledging that an expansionist fiscal policy can bring about an increase in investment in non-productive activities and that an expansionist monetary policy can bring about an increase in investment in productive activities.

3. It is held that under certain conditions, the increase in government expenditure given rise to by fiscal policies can crowd out private investment. Samuelson says: "In general, there is no disagreement about the existence of crowding out. The argument is, instead, about the size of the crowding out." (Footnote 8) (Ibid., p 353)

These three points are major ideas of the monetarists. The absorbing of these ideas by the 12th edition shows that in theories about total demand, monetary policies now have the same importance as fiscal policies. Monetarism is now on an equal footing with Keynesianism.

Also, looking in terms of total supply, prior to the 12th edition of "Economics" there was little or nothing on issues in this respect. The reason for this was that Samuelson, in accordance with Keynes theory, held that as long as total demand was maintained at the full-employment level, capitalist society could automatically produce a sufficient supply of commodities. However, in the 12th edition, the discussion of total supply takes up a large amount of space and this constitutes one of the two major mainstays of macroeconomic theory. The book divides total supply into long term and short term, and the major ideas are:

1. Capitalist total supply is fixed and unchanging over a certain period and is equivalent to output volume under full employment. However, in different periods changes can occur. For example, when the enthusiasm of people for engaging in economic activities declines, total supply will decrease. At this time, even if total demand is maintained at the level under full employment, the problems of employment and inflation can still occur. This idea comes from the supply-side school.

2. In the short term, as some production costs are fixed and unchanging, the volume of total supply can change following the rises and falls in price levels. In the long term, because all prices can change, the total volume of supply can reach the figure under a situation of full employment. This idea is almost exactly the same as the

theory of the rational expectation school in respect of long-term and short-term total supply. The difference lies in that the 12th edition of "Economics" takes the unchanging nature of some costs as a reason for changes in total supply volume over the short term, while the rational expectation school sees the cause of this as being the incompleteness of information.

Summing up the above, the 12th edition of "Economics," on the basis of the neoclassical synthesis school, draws in the ideas of the monetarist, supply-side and rational expectation schools, forming a theory which has total supply and total demand as major mainstays, then through the mutual roles of total supply and total demand, it tries to explain capitalist macroeconomic fluctuations, including stagflation. Its total supply ideas have been influenced by the supply-side school, while the total demand ideas come from monetarism and Keynesianism.

#### IV. An Analysis and Appraisal of the 12th Edition of "Economics"

Thirty years ago, the economic ideology which had the position of orthodoxy in the West was the traditional theory, represented by Marshall. From the 1930's, following changes in historical conditions, Keynesianism replaced the traditional theory in macroeconomics. At the end of the 1940's, in order to safeguard the unity of Western economics, Samuelson, the author of "Economics," formed in this book the neoclassical synthesis theoretical system. The position of this theoretical system as orthodoxy continued until the middle of the 1960's. After that, the new schools gradually formed and tried to replace the neoclassical school in the position of orthodoxy. The 12th edition of "Economics" which was published in 1985, takes the various ideas of the new schools and further synthesizes them in the macroeconomic section of this book, so as to obtain quite wide endorsement and support, and thereby continue to maintain its position as orthodoxy. The major characteristic of the 12th edition of "Economics" is that the position of Keynesianism as the only macroeconomic truth has been shaken. Looking at this situation, we have made the following analysis and appraisal.

First, the orthodox Western economic theories, including the 12th edition of "Economics" are nothing more than explanations of economic reality made by Western scholars under different historical conditions in order to accord with political and practical trends. Following changes in historical conditions and social trends, the Western orthodox theories have continually changed in terms of their ideas. In the 12th edition, Samuelson writes: "Economics is an evolutionary science, changing to reflect shifting trends in society and the economy. The evolutionary nature of economics is reflected in every chapter of this new edition." (Footnote 9) (Ibid., p viii)

From this we can see that Western economic theories are temporary in nature and follow trends. Yesterday's theory may today be outdated and today's ideas may tomorrow be cast aside.

Second, although there are various differences between the various Western economic schools, they have a commonality in that they all research capitalist macroeconomic movement simply by proceeding from the flow of commodities. The diagram which this article has employed and which is often used by Western scholars demonstrates this point. According to the hypothesis, the square representing enterprises in the diagram has products to the value of 100 yuan. They sell the 100 yuan of products to the public and then use the 100 yuan they receive in return to purchase 100 yuan of production factors from the public. This process is the simple commodity flow process W-G-W. Seen from the square representing the public, the original production factors valued at 100 yuan are sold to the enterprises and 100 yuan is received in return. This is then used to purchase the products valued at 100 yuan. This is likewise a simple commodity flow process W-G-W. The policy proposals of all schools are all intended to achieve a common goal, the maintenance of the free flow of the channels of circulation. Only when the channels of circulation are unimpeded can the two W-G-W processes between the enterprises and the public be completed.

We know that the motive for capitalist production is the pursuit of profits. Thus, its macroeconomic movement cannot simply be a process of simple commodity circulation and rather must be G-W-G'. However, the change from G to G' is not only a question of circulation. It is first produced in the production process. The focus of research in the 12th edition of "Economics" is the theory of the circulation process and the policies for maintaining the unimpeded flow of the channels of circulation. This, no doubt, plays a certain role in resolving the problems faced by a capitalist economy. However, it in no way involves the production sphere, so it cannot thoroughly resolve the problems of the Western world. This is because, while maintaining the free flow of circulation channels is helpful in realizing the surplus value formed in the production sphere, it cannot guarantee that this surplus value will necessarily be realized. When surplus value cannot be realized, capitalist macroeconomic movement will experience problems. Thus, macroeconomic policies for the purpose of maintaining the free flow of the circulation channels are nothing more than stop-gap measures. If the problems are to be thoroughly solved, it is necessary to truly understand the causes of the formation of surplus value and seek countermeasures on this basis.

Since World War II, the various countries of the Western world have, to differing degrees, used the various macroeconomic policies detailed in the 12th edition of "Economics." These policies have produced some results but none have been very ideal. Let us take the United States as an example. At present, the unemployment rate is

about 7 percent and inflation is running at 4 to 5 percent. According to a report by the World Bank, in the 21 years from 1960 to 1981, the average annual growth of per capita GNP was 2 to 3 percent. The Western macroeconomic policies are intended to solve the problems of employment, prices and economic growth, but none of these have been resolved well. Facts have proven that Western economics is not a miraculous panacea which can cure all the problems faced by the countries of the West.

Before concluding this article, it should be pointed out that in the process of our country's socialist construction, we should both criticize the nonscientific components of Western economics as well as draw in those scientific aspects which are useful to our country. Our attitude in respect of the 12th edition of "Economics," which represents the orthodox thought of Western economics, should of course also be thus. Here arises the problem of determining whether things are suited to the national condition, whether they are useful and whether they are scientific in nature. The contents of this article show, at least, that this is painstaking and complex work, and will require that a thorough understanding be gained and an overall analysis be carried out of those contents which are to be judged. Having scanty knowledge of something and off-handedly engaging in exaggeration will not only cause confusion ideologically, but will result in losses in actual economic work. Thus, we should not come to rash conclusions before gaining a thorough understanding and carrying out overall analysis. On this point, the writer of this article should of course not be an exception.

#### **The Great Significance of Deciding the Party's Basic Line**

*HK090645 Beijing HONGQI [RED FLAG] in Chinese No 4, 16 Feb 88 pp 40-42, 43*

[Article by Wang Jue [3769 6030]]

[Text] Aside from affirming that our country is still in the initial stage of socialism, the 13th CPC Congress also laid down the party's basic line for this period. This is a historic contribution. As time goes, on its incalculable significance and impact on our party's leadership in the socialist cause will become more and more pronounced.

The so-called basic line also means the general line. It refers to the party's general guiding ideology, general objective of struggle, as well as the general guidelines, policies, fundamental methods and means for realizing this objective within a specific period of time. It is the foundation for uniting the thoughts and action of the entire party, as well as the basis for formulating the line, principles, and policies for various concrete undertakings. The correctness of the basic line will directly affect the success or failure of the party's cause.

Recalling the tumultuous history of the Chinese revolution and construction led by our party over the past decades, it can be clearly seen that every major success or defeat was invariably closely associated with the question of lines. During the period of the new democratic revolution our party, in the course of its struggle, formulated a correct basic line to guide the revolution during this historic period, and this was the general line for the new democratic revolution as summed up by Comrade Mao Zedong. Comrade Mao Zedong said: "The mass popular revolution led by the proletariat against imperialism, feudalism, and bureaucratic capitalism—this is China's new democratic revolution. This is the general line and policy of the Communist Party of China during the current historical stage." Why did the dynamic first great revolution fail? The fundamental reason lies in that the party was still young at the time and had not formulated a correct general line. Moreover, some of Comrade Mao Zedong's fundamental ideas on this general line were not accepted by the Central Committee of that time. The then party leadership erased the distinction between old and new democratic revolutions, implemented Chen Duxiu's rightist capitulationism, and gave up the proletariat's leadership in the revolution. In 1934, Wang Ming obscured the differences between new democratic revolution and socialist revolution, and carried out "leftist" adventurism, thus resulting once again in the disastrous failure of the revolution. That the new democratic revolution finally achieved victory after 28 tortuous years is inseparable with the affirmation of Comrade Mao Zedong's leading position in the party as well as with the formation and thorough implementation of a general line for the new democratic revolution. It may be said that the history of the development of the new democratic revolution is also the history of the formation, development, and final triumph of this general line.

To meet the needs of the transition period from new democracy to socialism our party drew up this basic line: "It is necessary to gradually realize socialist industrialization in the country, as well as to gradually achieve the socialist transformation of agriculture, handicraft industry, and of the capitalist industry and commerce, within a comparatively long period of time." This is the famous general line of the transition period. During this period, while the work to transform the private ownership system of the means of production was marred by some instances of overzealousness and deviation, generally speaking it proceeded smoothly. It also established a successful precedent in peacefully buying out the bourgeoisie. Again, this should be attributed to the correctness, as well as the thorough implementation, of the transition period's general line.

At the Eighth CPC Congress convened following the basic completion of socialist transformation, the correct principles and line adapted to the then existing conditions were put forward. However, owing to the party's inadequate theoretical preparations on socialist construction and its inexperience in construction endeavors,

as well as to the subsequent errors in the leadership of Comrade Mao Zedong, a clear-cut, lasting, and stable basic line or general line was not drawn up on the basis of the principles and guidelines of the Eighth CPC Congress. The general line of "go all out, aim high, and achieve greater, faster, better, and more economic results in building socialism" as advanced in 1958 had reflected the demands made at the Eighth CPC Congress which called for development of productive forces and had also illustrated the fervent aspirations of the people to lift our country from a state of "poverty and blankness." However, this line was not built on the basis of a sober scientific assessment of the country's situation then. Instead, it ignored the objective laws of economics and contained elements of hasty, blind pursuit. The defects in the "Great Leap Forward" movement and in the movement to organize people's communes were tied to these oversights. In particular, class struggle was brought up again shortly after and subsequently, the general line of building socialism was effectively taken over by the basic line of "taking class struggle as the key link." This led to a blunder of staggering scale, the "Cultural Revolution," and caused irredeemable losses to our country and people. It was in 1978 that the 3d Plenary Session of the 11th CPC Central Committee resolutely stopped the use of the slogan "taking class struggle as the key link," and firmly shifted the focus of work to socialist modernization and construction, designating as the decisive central task the realization of the four modernizations and the development of productive forces. On this basis, it formulated a series of new guidelines and policies, the primary of which were the policies of reforms and of opening up to the outside world. This enabled the socialist cause to take a turn for the better, and for today's profound changes to take place in our country's political, economic and cultural domains.

The fundamental experience since the founding of the PRC tells us that to realize socialist modernization it is absolutely necessary to have a correct and stable basic line. The party's basic line in the initial stage of socialism as set down at the 13th CPC Congress was a perpetuation, advancement, and development of the line determined since the 3d Plenary Session of the 11th CPC Central Committee. It demonstrated the entire party's affirmation of the correctness of the line drawn up at the 3d Plenary Session of the 11th CPC Central Committee as well as the line's guiding role in the entire initial stage of socialism. It thus guarantees the continuity and lasting stability of the line drawn up at the 3d Plenary Session of the 11th CPC Central Committee. Such a basic line will provide an enduring and stable guideline to direct all kinds of undertakings, as well as a fundamental regulation to decide on what to do and how to do it. Leading organs at all levels, along with party members and cadres on various fronts, will be able to carry out their work creatively under the direction of this line. Such a basic line will also enable party organizations to carry out correct guidance and supervision of party members and cadres as well as on all kinds of undertakings. In other words, such a basic line will provide a fundamental

guarantee for realization of the party's correct political leadership. The cause led by the party could then march steadily toward victory along this line.

The 13th CPC Congress reaffirmed the line formulated since the 3d Plenary Session of the 11th CPC Central Committee as the basic line in the initial stage of socialism because this line was drawn up on the basis of restoring order, and of summing up the experience and lessons accumulated since the founding of the PRC, notably the lessons of the "Cultural Revolution." It grew in the course of restoring the Marxist ideological line of seeking truth from facts as promulgated by Comrade Mao Zedong and out of the practical experiences of the cadres and people in emancipating the mind, studying national conditions, and exploring a path toward socialism with Chinese characteristics. It is the crystallization of the party's and the people's wisdom as well as that of the collective wisdom of the CPC Central Committee. Practice has proven that only by enforcing a line conforming to the reality in the initial stage of socialism can the building of socialism with Chinese characteristics be possible.

We have often said that the formulation of the correct line, principles, and policies must proceed from reality. The biggest reality confronting us presently is that our country is in the initial stage of socialism. To depart from this initial stage is to depart from the primary reality and it will then be impossible to set down correct lines, principles, and policies conforming to reality. In the past our understanding of scientific socialism was not scientific at all: In theory we adhered strictly to certain Marxist and Leninist concepts; in practice we imitated foreign models and, for a very long time, we did not recognize the historical stage in which our socialism was found. This led to errors in guidelines, principles, and policies. The reason the 3d Plenary Session of the 11th CPC Central Committee wanted to stop the use of the slogan "taking class struggle as the key link" and abolish that basic line of "discussing class struggle every day" was because that slogan and that line did not conform with the biggest reality, the initial stage of socialism. First of all it obscured the distinctions in the social characters and primary contradictions of the transition period and of the socialist period, and made unrealistic assessments of the ideological influence of the exploitative class as well as the effectiveness of the restorationist forces of capitalism. It continued to regard class struggle, this principal contradiction of the transition period, as the principal contradiction in the entire period of socialist history, not admitting that the contradiction between the people's growing demand for material civilization and the backward social production had become the principal contradiction. Second, it overlooked the fundamental characteristic of the initial stage of socialism, which is the backwardness of productive forces, and relegated to a secondary task the development of productive forces which should have been the primary task of this socialist period. Instead, it placed greater emphasis on carrying out struggle between the

two classes and between the two roads as the fundamental task of the entire historical period of socialism. Under the influence of this guiding ideology things which under socialist conditions would have contributed to the development of productive forces and to the commercialization, socialization, and modernization of production were often opposed as favoring "capitalist restoration," while things which restricted the development of productive forces, or were not essentially socialist in nature, or were only relevant under a certain special historical condition, were reinforced as being "socialist principles." Third, the triumph of socialism over capitalism was established primarily on the basis of repeated political struggles and mass criticisms characterized by "daily discussions" of class struggle, as well as on the basis of endlessly changing the relations of production and of pursuit of a greater and broader public ownership system. It ignored the fact that socialism must create social productive forces far superior to those of capitalism in order to gradually curb capitalism's influence and ultimately overtake it. After the 3d Plenary Session of the 11th CPC Central Committee, owing to a correct assessment of the historical stage in which our country found itself, as well as a more intensive understanding of this period as a result of the summary of experiences and explorations in reform, the party's basic line was gradually formulated along with the intensification of this understanding. The nature, principal contradiction, fundamental characteristics, and basic task of the initial stage of socialism determined this basic line, as well as the central task and the line's two fundamental features. Consequently, they also affirmed that this is a correct Marxist line proceeding from reality.

Since the party's basic line conforms with the reality in the initial stage of socialism it is one that seeks to achieve socialist modernization in an earnest and down-to-earth manner. To admit that our country is in the initial stage of socialism is to admit the objective reality and backwardness, but it does not mean complacency and indifference. Instead, by proceeding from reality, this admission seeks to formulate correct lines, principles and policies, appeal to the sense of urgency of the nation, and encourage the people to go all out to make the country strong and wipe out the face of backwardness. In itself this admission is to inspire and not to depress. It aims to stimulate genuine drive and not empty endeavors. The basic line outlined the objective of struggle in the initial stage. That is to build our country into a prosperous, democratic, and civilized socialist state. Specifically speaking, prosperity means realization of modest wealth by the end of this century, and attainment of the status of a moderate developed country by the middle of the next century. Discontinuing the use of the word "highly" before the words democratic and civilized does not mean that we have given up this long-term objective. Rather, it means that the building of democracy and civilization is placed on real material foundation because democracy and civilization in the initial stage depend on the state of the productive forces in this stage. They can only



develop along with the gradual development of productive forces. It must be asserted that the objective drawn up by the basic line is explicit and dependable for it manifests both the spirit of seeking truth as well as a lofty ambition. The basic line is embodied primarily in one central task and two fundamental features. The central task of economic construction means that the vigorous development of productive forces, and the development of socialist commodity economy, form the overwhelming central task in the initial stage. All other endeavors must concur with it and revolve around it. The two fundamental features also conform to this central task and their goal is to develop productive forces. Only by adhering to the general guideline of reform and opening up can productive forces be liberated, and only by adhering to the four cardinal principles can the development of productive forces be fundamentally assured. This basic line sets down an explicit objective of struggle and regards the development of productive forces as the points of departure and arrival—does this line not seek precisely to wipe out the state of backwardness with “real and genuine weapons”? This basic line has yet other important features and these are self-reliance and hard work. The reason is that we face complex contradictions and difficulties in the initial stage of socialism, and it is absolutely imperative that we reflect on problems and manage affairs according to our own real conditions and situation, that we have strong will, and are psychologically prepared for protracted hard work and struggle. Consequently, it may be said that the theory of initial stage of socialism and the party's basic line recognize backwardness, reject complacency, and show determination to change the existing state of backwardness. Only by defining this theory and carrying out this line can smooth progress along the course of the initial stage, and entry to a new stage of development, be possible.

Since our party has affirmed that our country is still in the initial stage of socialism and has also determined the basic line of this period, then this basic line naturally becomes the guide for all undertakings all over the country. No region, department, or endeavor may deviate from the direction of the basic line, nor depart from the central task and two fundamental features. Party members and cadres should use the party's basic line as the norm to judge their ideology and action, and overcome any one-sidedness incompatible with the basic line. They should also conduct thorough and intensive work to make the basic line the basis for unity of all nationalities around the country as well as the norm in their actions. At the same time, the thorough implementation of the basic line should be integrated with the actual situation in different places and units. While the various parts of the country are all in the same initial stage, all are underdeveloped and backward, this backwardness exists at varying levels and is not all the same everywhere. Extreme imbalance is present in various aspects in politics, economics, and science and technology. Differences exist between coastal and inland regions, between the east and the west, the south and the north, this province and that province, this county and

that county, this unit and that unit, and between this village and that village. As such it is necessary that the leading organs and cadres of various units step up their investigations and studies and arrive at a clear understanding of the real situations in the provinces, municipalities, localities, counties, and the units themselves, and then draw up working guidelines in accordance with the actual conditions of the local units. Formulation of economic development strategies, implementation of economic and political structural reforms, and building of party style should all be done according to the actual situation in each locality. The criteria for assessing the correctness of ideas, superiority of structure, and success or failure of reforms should be based on whether they are favorable or not to the development of productive forces. Policies which have been proven through practice to be unfavorable to the development of productive forces should be boldly reformed, while those favorable to development of productive forces under the socialist system led by the party should be resolutely adopted. Guiding ideologies, patterns, and styles which deviate from reality should be abandoned. It is necessary to understand the basic line by integrating it with the reality in the locality and the unit, and to use the basic line as the guide in resolving actual problems for the locality and the unit. It is also imperative to further emancipate the mind and to engage in bold explorations in order to ensure that our cause will advance toward the direction guided by the basic line.

**14th Lecture of Forum on Socialist Commodity Economy: Planned and Free Prices**  
*40050158j Beijing HONGQI [RED FLAG] in Chinese No 4, 16 Feb 88 pp 43-46*

[Article by Yang Lu [2799 7627]]

[Text] I. What Are Planned and Free Prices?

Planned and free prices are two forms of pricing distinguished by the adoption of planned management. The traditional pattern of planned pricing is a unitary mandatory one. Prices of all commodities as well as service charges in the state-owned economy and the collective economy are respectively formulated and readjusted in accordance with the principle of centralized leadership and multilevel management. All enterprises must observe the decisions. Only the prices made in trade fairs in the rural areas are called the free price because it is set by the producers themselves. This kind of management system once helped us maintain a stable market price and helped low-income workers make their living. However, we could not deal with the situation by way of level-by-level management because there were so many commodities subject to our planned pricing. Therefore, we could not but keep the situation unchanged for a long time. Particularly, the prices were fixed for some 10 years during the “Great Cultural Revolution.” Consequently, a number of problems were left over. Since the commodity value and the supply-demand relations constantly changed, it was impossible for the state to



promptly formulate and readjust the prices of tens of thousands of commodities in accordance with the requirements of the law of value. Hence, there developed an irrational situation where the prices of many commodities neither reflected their values nor the supply-demand relations. This hindered the healthy development of the national economy. Following the work of restoring order out of chaos after the 3d Plenary Session of the 11th CPC Central Committee, we got a deeper understanding about socialist commodity economy. We basically reformed the original system of price management, and introduced the practice of free prices into the unitary pricing structure. It eventually developed a new type of planned pricing corresponding to the guidance planning, that is the guiding price of the state, or called the guiding price or floating price. Meanwhile, the traditional planned pricing brought another form of planned price, that is the set price of the state, or called the mandatory price or fixed price. Thus, together with the market price, that is the free price, there are three types of prices.

First, the set price of the state is specific prices formulated by the state and to be implemented nationwide, and falls within the scope of planned pricing. The set price is only applicable to very few important commodities and services which are under the mandatory planning. Generally speaking, we should not and must not decentralize to producers the decisionmaking power of setting the prices of products which are important and badly needed or which are vulnerable to monopolization. For example, the pricing of procurement contracts for grain, cotton, and oil crops; the pricing of coal, oil, electricity and heat supply which are subject to planned supply; and the levy of charges on rail transportation, postal and telecommunication services and services of public facilities in urban areas. These commodities and services must be directly administered by the state in order to ensure a coordinated development of the national economy. As these commodities and services are limited in number, it is possible for the state to voluntarily base on and apply the law of value to pricing.

Second, the guiding price of the state is the stipulation of standard prices and the floating range of a price by the state. Producers and business operators may set their own prices within this range, or, subject to the guidance, coordination or approval of the state, they may set a price through negotiations. It is marked by the feature of being partly fixed by the state and partly fixed by the producers and business operators, and it also falls within the scope of planned pricing. It is applicable to relatively important and popular commodities and services which are subject to the guidance planning. For example, products of plant production, animal products, perennial agricultural and forestry products, raw materials for industries, natural resources for export, and products of breeding industry as well as industrial products which require relatively more investment and special equipment. As the output value of these products is relatively higher and they are important to our production and

livelihood, we must set as far as possible the guiding price so as to prevent the prices and the production volume from fluctuating. Moreover, there are relatively few commodities and services which are important and popular, so that it is possible for the state to set the guiding price. The present specific forms of guiding prices adopted by the state are: 1) The price floating at a range and about a standard price set by the state, which allows the producers and business operators to spontaneously fix the price of commodities within a specific range; 2) the restricted price, in respect of which the state sets a maximum or minimum price (protective price); 3) the negotiated or coordinated price, which is set at the place of origin through negotiations by the industrial, commercial, foreign trade, and agricultural sectors organized by bureaus in charge of the management of commodity prices; 4) the dovetailed negotiated price, which is made dovetailed by the commodity prices departments and other departments of adjacent districts through negotiations, and is implemented in the respective districts; 5) the flat price of a trade, which is set by the producers and business operators of a particular trade through negotiations, is approved by the commodity prices departments or submitted to these departments for the record, and is implemented in the trade; and 6) the unplanned prices of means of production whose price limit or range of fluctuation is stipulated by the state, which is set within such range by the producers and business operators, and which is implemented in a unified manner in the local districts. Generally speaking, the above-mentioned specific forms of prices require the formulation of, or negotiations on, such conditions as the quality standard of the products in question, the point of delivery, the form of purchasing (by contracts for goods, contracts for future delivery, commissioning or orders for processing, etc.), the location of procurement, the amount of procurement and so on.

Third, the market price, also called the free price, is entirely set by the producers and business operators. It is generally applicable to commodities and services which are subject to neither the scope of planning nor any restriction on the supply, and which are consumed by consumers on their own accord. On some relatively important and popular commodities, the commodity prices departments may temporarily set a maximum or minimum price when the supply of the said commodities can hardly meet the demand and the market price rises sharply; or when the supply excessively exceeds the demand so that the market price plummets. This type of temporary price restriction is another interim form of setting guiding price by the state. The price will be abolished when the supply is in balance with the demand. The market price is applicable to commodities and services which are numerous in variety, less important, and not so popular. This is because the state is unable to promptly and rationally readjust the prices in accordance with changes in the productivity of social labor and in the supply-demand relations. It is therefore better to have producers and business operators set their

own prices and allow the prices subject to market readjustment, so that a healthy development of the national economy will be promoted. Moreover, this helps us concentrate our efforts on accomplishing the work concerning the management of set prices and guiding prices by the state. The present specific forms of market prices are mainly as follows: 1) The price at trade fairs; 2) the negotiated price in a particular trade; 3) the negotiated price set among individuals; 4) the negotiated price set by a trade without submission to the commodity prices departments for approval or for the record; and 5) unplanned prices of means of production and industrial products whose supply is not under any restriction.

The classification of commodities and services to which these three price patterns apply should be specific in accordance with the demand and feasibility. As various localities may differ among themselves in terms of demand and feasibility in different periods, we should strive to act in accordance with realities and avoid taking any subjective and arbitrary actions.

## **II. Gradually Reform the Structure of Price Management, and Promote a Healthy Development of the Commodity Economy**

In the past, our economic system regarded the planned economy as conflicting with the commodity economy, and ignored the application of market mechanism. All prices were under the level-by-level management of the state. Neither the producers nor the business operators had the power to set a price. Prices were not changed for years. This situation seriously violated the law of value and thus hindered the development of social productive forces. The operation of an unplanned commodity economy depends on the market mechanism. An advantage of this type of economy is that the functions of the law of value are given full play, and both producers and business operators are energetic and enthusiastic. However, a shortcoming of this type of economy is that the national economy will be in the state of anarchy and its development left unchecked. The social productive forces are often wasted when the prices and the production volume fluctuate violently. Furthermore, this may eventually disrupt the healthy development of the social productive forces. China is a socialist country. After more than 30 years of development, it has eventually come up with a socialist economic pattern marked by Chinese characteristics, that is the planned commodity economy. The implementation of the planned commodity economy prevents the prices from becoming too rigid, or being in the situation that we experienced in the past, because it mainly depends on the market mechanism rather than practices of distribution and allocation. Moreover, it is different from a capitalist economy in which impromptu prices are used in most cases and both production and circulation are developed without planning. One of the tasks of China's pricing reform is to continuously investigate a pattern of price management suitable for the planned commodity economy.

The "Decision of the CPC Central Committee on Reform of the Pricing System" pointed out that "while readjusting the prices, we must reform the excessively centralized system of price management, gradually narrow the scope of unified pricing by the state, and appropriately widen the scope of the floating prices within a specified range and the free prices." In his "Report on the Seventh 5-Year Plan," Comrade Zhao Ziyang pointed out that we should "gradually establish through reforms a system in which only very few important commodities and services are to be priced by the state, and other commodities and services are respectively subject to the formulation of guiding prices by the state and the market readjustment. We should use the readjustment function of price lever in a better way."

The coexistence of the set price of the state, the guiding price by the state and the market price is relatively suitable for the pattern of planned commodity economy. In the wake of development of the socialist commodity economy, the macro-management has been further strengthened while the micro-management is invigorated. Furthermore, the classification of commodities and services to which these three types of prices are applicable may continue to change. Nonetheless, the coexistence of the three will prevail for a long time to come. These three are interdependent and mutually augment each other. At the same time, each of them performs its own functions. Of the three the features of the guiding price by the state are that it is being planned, is subject to negotiations, is mandatory and is set independently. It is therefore more suitable to the system of socialist commodity economy. We should further reform and perfect the system of prices management. On the relatively important and popular commodities and services, we should substitute the guidance planning for the mandatory planning and the completely free market readjustment. On procurement, we should substitute the practice of purchasing by contracts for acts of planned purchase, distribution and allocation by the state as well as those of unchecked purchasing and supply. We should substitute the guiding price by the state for the set price (fixed price) of the state and the market price. Therefore, the free market readjustment will become a planned one and have the guiding function in nature. These features are more flexible and acceptable than those of mandatory planning: planned purchase, distribution and allocation by the state; and the set price of the state. This is also a practice of the open-door policy, which acts as a guidance, is under control and is more solid.

We uphold that the relatively important and popular commodities and services should be subject to the management of guidance planning rather than the completely free market readjustment. This is mainly because the production of agricultural products should be closely related to the natural resources. In particular, the scale of plant production is limited by the availability of arable land. The general solution for increasing the sown area of a particular type of crop is to decrease that of another type of crop, in addition to increasing the multiple

cropping area. For example, in 1987, Hunan Province decreased the sown area of rice by 1.31 million mu and that of cotton by 290,000 mu in order to increase that of hemp by 1.9 million mu. A few years ago, by applying the price lever to the work of production readjustment, we experienced a series of price increases when fixing the purchase price of agricultural products made by north-western China. We first increased the price of soybeans in order to promote its export, and then the price of maize in order to reduce its sown area. We also increased the price of beet because its former price was so low that nobody wanted to grow it. Later, we increased the price of wheat because its price was by then comparatively low. This fully shows that to simply rely on price stimulation will be unable to promote a coordinated development of the plant production. Furthermore, seasons are very important for agricultural production. Though an increase of price may attract more producers to enthusiastically sell the products in question and to grow more in the coming years, an excessive increase does not necessarily mean a sharp rise in the yield of sales. Besides, the peasants may incorrectly interpret the increase as a signal to produce more in the coming years and to sharply reduce the production of other products, thereby adversely affecting the coordinated and stable development of agricultural production. Thus, we can see that the major crops of plant production must be subject to coordination in order to meet the needs of various sectors. We should handle well the guidance planning for the sown areas of crops and the price parities among these crops, so that the yields from these crops basically correspond to the labor spent on them and that those who are a good hand at plant production may get higher returns.

We uphold that the relatively important and popular industrial products should be subject to the management of guidance planning. This is because it is inappropriate for the market to have total control over their prices. Moreover, the production technology involved is generally complicated, their production scale and investment sum are larger, and their use of equipment and special tools are extensive. Recently, after the recent decision-making power of capital construction projects were decentralized, there have been hundreds of production lines in assemblies and factories producing TV sets, refrigerators, washing machines, and electric fans. The supply of these products was so excessive that the plans of some factories were shelved or have never had their production plans realized. This practice of blindly duplicating construction projects has wasted a large amount of manpower, materials, and financial resources. This shows that it is necessary to put the relatively important and popular industrial products under a nationwide management by the trade, and the guidance planning and the guiding price of the state.

The guiding price of the state reflects better the long-term and overall interests of the state, the short-term changes in the supply-demand relations, and the immediate interests of enterprises. It therefore has great vitality. Besides, it is a new type of pricing for which the

commodity prices departments and the relevant producers and business operators must continuously develop perfect measures through their practical work. We must handle well the positive role of the guiding price so as to offset its shortcomings. Commodity prices departments must promptly and rationally readjust the prices and revise the relevant regulations in accordance with the productivity of social productive forces and changes in the supply-demand relations, so that the prices will basically reflect their values or slightly deviate from their values at most. In addition, they should not simply rely on the highest or the lowest production cost of a handful of producers and business operators. They should not simply base on the market conditions of a particular location at a specified time and disregard the price parities among related products. They should not arbitrarily alter the prices or make them greatly deviate from their values. Rather, the producers and business operators must promptly reflect changes in the supply-demand relations in the market, and independently increase or cut the prices at any time. However, they should not simply focus on the short-term supply-demand relations of the market and sharply hike or cut the prices. This is because this would cause fluctuations and would disrupt and undermine the stability, coordination, and development of production and circulation.

The key to making the guiding price of the state function properly and to eliminate its shortcomings rests with our work of stabilizing the currency value and the work of commodity prices departments concerning a prompt and rational readjustment of prices. Producers and business operators must, to a certain extent, be able to independently increase and cut the prices, so as to promptly reflect changes in the productivity of social productive forces and in the supply-demand relations in the market. This type of pricing provides to producers and business operators a signal for readjusting their production and operations, and to consumers a signal symbolizing either a favorable or an unfavorable condition for consumption. The situation of being out of balance will therefore be promptly improved. At the same time, this will provide to the planning departments a signal for readjusting the guidance plans, and to commodity prices departments a signal for readjusting the guiding price of the state. It will therefore really function as a tool for readjusting production, circulation and consumption, and for improving the work of economic management.

#### **Treasuring Reputation**

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[Article by Liu Shaoying [0491 4801 2819]]

[Text] A notice advising the holding of a "poor-quality product exhibition" has got quite a number of factories into a flurry and they are rushing to take returned products from consumers and are busying themselves in making repairs. Although such activities usually start well and then peter out, nothing ends up being changed

and people cannot help but wring their hands and heave a sigh, they do however make at least a splash in the deep pool of the sellers' market which was formed under the old system over a long period. This event shows at least that the outdated idea of "the emperor's daughter not having to worry about finding a husband," which has been stubbornly clung to, will no longer do, and that enterprises have no option but to pay attention to their reputation.

In general, the well-known enterprises around the world always pay great attention to "the primacy of prestige." What is "prestige"? It is nothing more than the confidence and reputation one enjoys. If one loses the consumers' confidence in this respect, it is inevitable that one will lose business and it may even result in the enterprise closing down. Many of our enterprises have already gradually come to recognize the importance of reputation in the continued existence and development of the enterprise.

For every one of us, reputation is likewise important. In the contemporary Soviet novel "Remember for As Long As You Live," there is recounted a story relating to reputation. On the eve of victory in the Soviet Union's war to defend the country, the soldier Anatoly who had been cited for merit in combat took advantage of his return to the frontline after the healing of his wounds to desert from the station and return home. After this, he lost the honor and reputation of a revolutionary soldier and citizen, his parents rebuked him, and the neighbors despised him. He felt too ashamed to show his face, and he discovered he was in an isolated and miserable situation. He had no option but to live, like a wolf, deep in the forest. Further, his wife, in her extreme shame, committed suicide. The great pressure of a bad name can result in someone being unable to live normally. It can truly be said: "Faced with a thousand accusing fingers, although not sick, one will die."

The reason reputation is so important to people is that everyone lives in a society and reputation is society's appraisal of their character and manner, including their attitudes and degree of acceptance. Although the standards of appraisal cannot be the same, it is said that "justice is in people's hearts" and "the vision of the masses are as clear as snow." Thus reputation is often a fair-minded assessment of a person. It is also on this basis that the ancients said: "The gentleman hates the thought of having no descendants and his name not being passed down. He cares not if his span is not long." Translated into modern language, this means that a moral person only worries that he has not got a praiseworthy reputation. He does not fear that he might not live long. The logic in seeing reputation as more important than life is that in the feedback from reputation, one can recognize the value of one's life, and this in turn can promote the self-cultivation of morality and encourage self-improvement.

One must strive diligently for a good reputation. In building such a reputation it is necessary to consciously restrain oneself and not engage in mean activities and scandalous things which will harm one's name. When Yu Qian of the Ming Dynasty was a grand coordinator, he never fawned on or curried favor with influential people. On going to the capital, he "never took goods as presents to smooth his way." Some people urged him to send presents, but he raised the sleeves of his robe and said: "I have brought a refreshing breeze." He also wrote a poem: "Kerchiefs, mushrooms and incense, originally of use to the people, now bring harm. Two sleeves of fresh breeze when going to court allows one to avoid being talked about in the neighborhood." This last sentence is a clear demonstration that he treasured his reputation. Not doing anything which would allow the people to chatter about him is one of the reasons Yu Qian's reputation has been passed down and he is universally acclaimed.

However, in practice some people are not like this. Some staff members of an electricity office in a particular town regularly used their positions to get advantages from users. On one occasion, some of the staff members went to a theater to watch a free show, but they were stopped outside the door by the ticket collector. They went back to their unit and on the pretext of examining and repairing the service, shut off the electricity. Only when the theater sent them tickets did they restore the supply. Some people asked them whether they were worried about harming the reputation of the electricity station by doing things like this. They disdainfully said: "How much is reputation per jin? What we want are practical benefits." There are also some party members and cadres who, in order to obtain private benefit, cast reputation aside. Of course, the effects of their odious influence are not restricted to them alone.

It is not easy to obtain a good reputation, while a bad reputation can be formed in an instant, and then even if one puts in great efforts, it is not certain that one will be able to retrieve one's original reputation. People should not live only for reputation, but if one does not treasure one's reputation, then other things cannot even be talked about. By treasuring a reputation and being careful in word and deed one can raise the level of one's own moral cultivation. The real aim lies in this.

**Shijiuquan Awakened From Poverty—Reflections on the Five-Tone Opera 'Shijiuquan'**  
*40050158/ Beijing HONGQI [RED FLAG] in Chinese No 4, 16 Feb 88 p 48*

[Article by Wang Chengdian [3769 2110 0368] and Wang Huixin [3769 2585 2450]]

[Text] Following the staging of the modern drama "The Aroma of Bean Flowers" in 1985, the Zibo [3245 0590] City Five-Tone Opera Company of Shandong recently

launched another modern production entitled "Shijiuquan" [4258 5273 3123], which was highly acclaimed by the literary and art circles in the capital as well as by the general audience.

Five-tone operas, originally called "zhouguzi" [5136 7849 1311], are local Shandong operas and have a history of over 200 years. They have a rich local flavor and a fresh rustic style, and are welcomed by the audience because they are known for their fine singing and exquisite performance. They became almost extinct during the 10 years of the Cultural Revolution, and were revived thanks to the support of the local party and government leaders.

"Shijiuquan" is a story which took place during those cruel years which had "seen no parallel in history." Huang He, an undergraduate of an agricultural university, was falsely accused as an "active counterrevolutionary." With all his knowledge, he had no way of serving the country. Unwilling to sink into oblivion, he fled to Shijiuquan, a poor and backward mountain village. Working against extremely adverse conditions, he persisted in carrying out scientific experiments and tried to change the poor and backward appearance of the mountain village by means of scientific farming. However, he repeatedly met with opposition from Shi Laohou, the team leader who was made muddleheaded by the ultra-leftist line. With the villagers covering for him and encouraged by the pure love shown by the village girl Lu Ya, he successfully cultivated the first generation of a special variety of Chinese cabbage, thus finding a way out for the poor and desolate village. In the end, even Shi Laohou realized his errors and mended his ways.

"Shijiuquan" is original and rich in content. It depicts wounds without sounding pessimistic, and deals with an old theme without making it sound hackneyed. It skillfully epitomizes a given historical period from a new angle. Through moving episodes, vivid characterization and superb techniques of expression, it elucidates to the audience the fact that poverty is not socialism.

"Shijiuquan" portrays in detail the lovable yet pitiable image of typical rural cadre Shi Laohou whose conscience became twisted and whose mind became polluted because of the shackles of the ultra-left Line. He was a kind-hearted, upright, simple and hard-working communist who had since the cooperativization movement been leading the village people in working against wind and rain in the hope of living a happy life, but Shijiuquan remained as poor as ever. He was neither able to change the backward appearance of the mountain village, nor extricate himself from poverty. On the contrary, his simple class feelings and boundless loyalty for the party were fooled by the "leftist" line, and his own nature became twisted. When he learned that Huang He was the son of the man who had saved his life, he dared not admit the fact for fear of becoming involved. He knew very well that Huang He was doing the village, the collective and the people a service by

introducing scientific knowledge to the village, but voiced strong objection against his conscience by condemning Huang's efforts to develop production and shake off poverty as the worst offense. One is both amused and annoyed at the way he made use of rigid means of political assessment in his efforts to find a companion. To protect his so-called "stand," he even destroyed the love of his daughter. Shijiuquan became poorer and poorer. Why? Was it because the soil there was not fertile enough? Or was it because the people there were lazy? No. The place was supposed to be a "natural treasure bowl." The truth is, the innocent yet ignorant peasants there were fooled by the absurd notion of "rather suffer a thousand years under socialism than enjoy a day's happiness under capitalism." This notion is essentially incompatible with true socialism. The grim facts made it imperative for the people there to rethink their own destiny. It was a lesson exchanged with one's own blood, a lesson which Shi Laohou finally came to realize when he was about to die. With a voice filled with regret, he cried: "Dear friends, I have done you wrong. I have been a cadre the last 30 years, and yet Shijiuquan is so poor. I am dying. You can hang my body on the persimmon tree at the entrance of the village to feed the old eagles and to serve as a warning against later cadres and party members." This is a cry from the bottom of one's heart. It moves even people who have a heart of stone. It is one's reflection on time, a historic repentance, a nation's awakening. It symbolizes the death of absurdity and the rise of the dragon!

Lu Ya and Huang He were both victims of the leftist line. But all the same, they belonged to the thinking generation, the generation of hope. The unending poverty forced them to rise and fight. Half consciously and spontaneously, they sought their new life. In those days when knowledge was considered a crime, they made use of their scientific knowledge to drive away the benightedness and ignorance which had long fettered people's minds, and persisted in opening up a road to becoming well-off through scientific farming. However, in the environment they lived in, they naturally became tragic victims of the "great calamity." The Huang He's and Lu Ya's of today will be able to display their skills to the full in building a prosperous and civilized socialist new village under the guidance of the line of the 13th CPC National Congress.

Of course "Shijiuquan" has its inadequacies. For example, because some details are unaccounted for, it sounds rather abrupt at times. Also, the language used by some of the characters can be improved upon. We hope that the playwrights, actors and workers of the Zibo City Five-Tone Opera Company would persist in penetrating into the depth of life, work on the improvement of their artistic quality, and create and perform more and better modern plays.

### **Introduce Competition into the Cadre Personnel System**

*HK101531 Beijing HONGQI [RED FLAG] in Chinese No 4, 16 Feb 88 inside back cover*

[Article by Wang Dechao, vice mayor of Yancheng City, Jiangsu Province]

[Text] Since 1987, Yancheng City has made fruitful attempts to introduce competition into the cadre personnel system. The reformed personnel system can be described as a system of recruitment with competition. Under this system, employees are engaged through public recruitment and examination of their work results, professional knowledge, countermeasures against some problems, impromptu replies, and the trust of the masses in them.

Market competition should be kept in pace with competition in recruitment of trained people. Creation of new products, application of new technologies, exploration of new markets, exploitation of new resources, establishment of new enterprises, economic development, and technological advancement all rely on highly trained people. In recent years, some townships and towns around Yancheng City have adopted the competitive system of discarding the bad and selecting the good in recruitment of cadres. In many township and town enterprises, the system of publicly recruiting cadres has replaced the system of appointing cadres, and a system under which cadres can be transferred to other jobs or go to a higher or a lower post as required has replaced lifetime employment so that township and town enterprises have become ever increasingly enlivened. Although some enterprises have introduced competition mechanisms into production, they are still restricted by planned distribution and administrative interference in employing people. As a result, the commodity economy there has not been able to develop vigorously.

Reform of the personnel system is a logical necessity in deepening the economic structural reform. When Yancheng City introduced the contracted management responsibility system, at first no one entered a bid. But when some people submitted a tender, they tried to press down the base figure and drove a hard bargain over some projects. After competition was introduced into the selection process for factory directors, however, we did not need to worry about getting a capable factory director, because we could determine a satisfactory choice from a number of people responding to open recruitment.

When competition is introduced into the personnel system, the masses can not only get involved in the competition but they can also comment on competitors. The whole process of competition is just a process of democratic recommendation, democratic appraisal, and democratic decisionmaking under open supervision of the masses. Doing so also reflects the principle of extending democracy and making the people masters of their own affairs.

In recent years we have somewhat reformed our personnel system, but some methods have distinctive faults. For example, the method of "Bo Le [0130 2869] selecting winged steeds" was emphatically publicized and advocated for a certain period of time, but people gradually felt that large numbers of winged steeds were often seen but a real Bo Le was seldom seen. Practice proves that such a method above all is a method of making decisions by some individuals. The method of judging horses from appearance is not as good as the method of judging them in races. Meanwhile, another method is to elect cadres through public opinion polls and democratic recommendation. This method can be regarded as a supplementary means when appointing cadres remains a principal method in the personnel system. However, the method in which "cadres are elected simply by votes" may stop two kinds of people from going to leading posts: First there are those who abuse power for personal gains and are unprincipled; the others are those who are capable, have a higher level of understanding of the party's policies, have a strong sense of principle, and are not afraid of giving offense but they are unknown to the public and are diligent and conscientious in work. Under such circumstances, those who try never to offend anyone and are of limited ability can, however, easily capture more votes. All these defects can be avoided in the exercise of the system of recruiting cadres through competition.

Being affected by feudal ideology, over the years a great number of cadres and the masses lacked the sense of competition and the mentality of surpassing others in a career. Some people like to find fault with other people, and they do not do what is required of them; others in their heart want to be an official but they outwardly pretend to be quite modest. These people usually speak with their tongues in their cheeks. Furthermore, we can often see that many people like to be jealous of others. The introduction of competition into the personnel system relating to cadres no doubt will have a great impact on the people's traditional concepts. Under such circumstances, it is absolutely necessary for the mass media to give more publicity and explanation to the viewpoint so as to create a genial atmosphere of making progress through competition and being mentally prepared for competition.

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