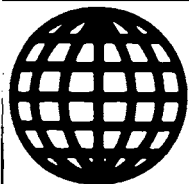


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[Translation of the semimonthly theoretical journal HONGQI of the Central Committee of the Communist Party of China published in Beijing; boldface passages as published]

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It Is Necessary To Seriously Implement the Principle of Democracy in Work Concerning Cadres

HK150351 Beijing HONGQI [RED FLAG] in Chinese No 6, 16 Mar 88 pp 2-4

[Article by Zhu Yan [2612 1484]]

[Text] The implementation of the principle of democracy in doing the work concerning cadres means that in the course of work, it is necessary to persist in taking the mass line, to carry forward socialist democracy, to increase the degree of opening up, and to enable the masses inside and outside the party to understand more and participate in the selection, employment, and examination of cadres and to supervise the work concerning cadres by virtue of the power vested in the masses according to the relevant laws and regulations. This reform is of extremely important significance for doing a good job in selecting persons of virtue and appointing capable persons in the new situation, for gradually ensuring the scientific management of cadre personnel work, and for providing an organizational guarantee for implementing the party's basic line in the new period.

The implementation of the principle of democracy in doing the work concerning cadres is an important aspect of building socialist democracy. The 13th CPC Congress report points out: "The essence and core of socialist democracy is that the people are the masters of their own affairs and they really enjoy all citizen's rights and the power to administer the state, enterprises, and institutions." According to the requirements for building socialist democracy, in cadre personnel work, we must, certainly, understand the desires of the masses, respect the will of the great majority of people, and on this account, gradually enhance the degree of transparency, the degree of opening up, and the degree of the masses' participation in light of the practical economic, political, and cultural situation of our country so that the masses can put forward their views in all forms and through all channels on the formulation and implementation of the principles and policies of the work concerning cadres and carry out effective democratic supervision of cadres at all levels and of the work concerning cadres. When we further carry forward democracy in doing the work concerning cadres, we not only strengthen the cadres' and the masses' consciousness of democracy and the masses' sense of masters' responsibility but also vigorously push forward the building of socialist democracy as a whole.

In the administration of cadres, particularly the selection and appointment of cadres, we must really attach importance to actual results, encourage competition, and seriously implement the principle of democracy. We hold that the best method to judge and select a cadre is "to select a horse of fine breed in a horse race." Appraising a cadre's merits and demerits on the basis of actual

results, selecting a person of virtue and appointing a capable person through competition on an equal basis, and changing the static method of judging a capable person the way a "horse is judged in a stable" to the dynamic method of judging a capable person the way "horses are compared in a horse race" are all beneficial to the emergence of outstanding talented people and to the basic prevention and correction of unhealthy trends in doing the work concerning cadres. However, some comrades are still not accustomed to and do not quite adapt themselves to this reform. We must resolutely break the mysterious and closed mode of work in the work concerning cadres and persuade them with the achievements of reform. We must encourage cadres to be faithful to their duties, to contribute toward undertakings, and to bravely carry out competition and support the masses inside and outside the party to exercise the democratic power to participate in the examination and selection of cadres so that the appraised cadres can see that the conditions for and opportunities of competition are equal, that the masses' appraisal is objective and impartial, and that the people selected through competition are relatively outstanding. In this way, comrades who have some misgivings will vigorously support and participate in this reform; the practices of attaching importance to actual results and of encouraging competition will be formed much more smoothly; and the spirit of forging ahead of the ranks of the cadres will be greatly aroused.

Knowing one's subordinates well enough to assign them jobs commensurate with their abilities is a basic demand of the party and the people who do the work concerning cadres. Knowing one's subordinates well is a prerequisite for assigning them jobs commensurate with their abilities. The great practice of reform and modernization has trained and is training thousands upon thousands of qualified personnel. By carrying forward democracy, persisting in taking the mass line, and relying on the masses to recommend persons of virtue and capable persons, party committees and organization departments at all levels can remedy the defects of too few channels for knowing their subordinates well enough and of too narrow a field of vision for judging people; discover a large number of outstanding qualified personnel urgently needed for modernization without sticking to one pattern; and select them for the suitable posts. While selecting and employing cadres, some of our comrades have often underestimated the role of the masses. This is incorrect. Bo Le [an official under the feudal Zhou Dynasty during the Spring and Autumn Period] was good at judging whether a horse was fast or not. However, if we rely only on a small number of "Bo Le's to judge horses," we cannot satisfy the need for a large number of qualified personnel for modernization. Furthermore, even a Bo Le makes mistakes, due to the limitation of his understanding. Practice makes it clear to the people that the genuine "Bo Le's" are, in the final analysis, the masses. To seriously implement the principle of democracy in the course of work, the comrades who do work concerning cadres must resolutely trust and

rely on the masses and discover and select qualified personnel in the practice of reform and opening up.

Since the 3d Plenary Session of the 11th CPC Central Committee, under the leadership of the central authorities, to carry forward democracy, party committees and organization departments at all levels have conducted many useful explorations in some important links of cadre management work. For example, outstanding middle-aged and young cadres have been selected, the "four transformations" of the leadership groups promoted, and the activities of recommendation in a democratic way carried out; examinations have been conducted for party and government leading cadres at and above the county level and the masses organized to conduct democratic appraisals and public opinion polls; party and government leading cadres have been employed and strict democratic procedures provided; the system of leading cadres' lifelong tenure has been abolished, the posts of the present incompetent cadres readjusted, and the views of the majority of the masses listened to and respected; and so on. Over the past few years, we have been unable to score marked achievements in the work concerning cadres without making these efforts, but there are still discrepancies between what we have done and what is required by the reform of the political structure. We are therefore required to sum up experiences and to do future work still better.

To implement the principle of democracy in doing the work concerning cadres, it is extremely important to establish and perfect a corresponding system. Over the past several years, due to the fact that the central authorities have repeatedly advocated this work and party committees and organization departments at all levels have made concerted efforts, we have done some creative work in the aspect of the establishment of the systems, formulated some good systems and regulations, and made marked results in the course of implementation. We must continuously implement these systems and regulations that embody the principle of democracy and the systems formulated everywhere according to the relevant spirit of the central authorities and proved effective by practice and gradually put them on a sound basis. At the same time, we must begin formulating some new systems and regulations. As the scope of the work concerning cadres is very wide, the principle of democracy is embodied in all management links of the work concerning cadres through many channels and in many forms. At present, according to the spirit of "having our eyes on the actual results and on arousing the enthusiasm of the grass roots and the masses, beginning with the things that can be done, and working hard to perfect the basic system," we must first do well in vigorously building the systems in the following aspects.

—Implementing the system of holding an open examination to choose the best people for employment in the course of recruiting cadres. In employing personnel, the party and government organs must adopt the method of holding an open examination to choose the best people

from society and the other systems and do a good job in recruitment to guarantee the quality of personnel. The political, legal, tax, industrial, and commercial departments and other departments approved by the central authorities and the State Council must resolutely do this when they recruit cadres from society.

—Reforming and perfecting the system of electing leading cadres in a democratic way according to the law. In this aspect of reform, it is necessary to firmly grasp this important link of carrying forward democracy, acting according to the law, and respecting the desires of the great majority of voters. Since we allow the deputies to jointly nominate people according to the law, there will be candidates nominated at the time of election without prior deliberation; since the number of candidates is greater than the number who will be elected, some people will be elected and some will fail to be elected. We must pay attention to seriously studying and properly solving the new problems emerging in the course of reforming the electoral system. In light of our national conditions, we must strive to gradually put the system of democratic election on a sound basis and to perfect it to ensure that we elect outstanding cadres who can best represent the interests of the people, embark on the "four modernizations" with one heart and one mind, deal with concrete matters relating to work, and bring forth new ideas to carry out reform.

—Examining and appraising the work of party and government leading cadres each year. The assessment of cadres is an important link of the work concerning cadres. On the foundation of summing up the past several years' practical experiences in examining and appraising cadres in a democratic way in all places, the Central Organization Department initially formulated a set of relatively standard and feasible provisional regulations on the annual assessment of the party and government leading cadres. These regulations have been tentatively enforced in approximately 20 counties (cities, districts) in 8 provinces and municipalities and have won universally favorable comment. These regulations must be spread in a planned and systematic way. We must carefully carry out organization, strengthen guidance, and pay attention to studying and solving the problems emerging in the course of enforcement on an experimental basis so that this system can be unremittingly perfected and protractedly adhered to.

—Choosing the best people to be employed as enterprise operators by adopting the competitive method of inviting tenders. This method will make the employment system in an enterprise undergo an important change. The number of enterprise cadres accounts for over one-third of the total number of the present cadres of our country, and the enterprise cadres are an important component part of the reform of the cadre system of our country; the new enterprise employment system being formed in the course of reform will provide valuable experience for the establishment of the employment system in society's institutions. The key to speeding up

and deepening the reform of the employment system in enterprises lies in persistently introducing the competitive mechanism into personnel management. Comrade Zhao Ziyang pointed out: "Not many people are really going in for competition; some are going in for competition in name only but have not done so in reality." Either the medium-sized and small enterprises that have implemented the policy of opening up or the large enterprises that have gradually developed after conducting a pilot project must adhere to the principle of being open, equal, and democratic and choosing the best people; widen the field of vision for selecting people and the scope of bidding; create a situation in which many opponents compete with one another on an equal basis; and really prevent and correct the incorrect method of phoney competition. The role of management personnel at all levels inside an enterprise must make full use of competition on an equal basis and choosing the best people.

Emphasizing the serious implementation of the principle of democracy in doing the work concerning cadres surely does not mean that the necessary security system in personnel work can be abolished. We must break the mysterious and closed mode of work in doing the work concerning cadres, but at the same time, we must maintain secrecy; for example, cadres' files, plans for personnel changes under deliberation, and so on must be kept secret. Although some circumstances may warrant openness, they must be treated on an individual basis. When we lay stress on carrying forward democracy, we cannot oversimplify everything, go to extremes, "reveal everything," or "disclose the whole inside story."

Increase Enterprises' Internal Driving Force of Paying Attention to Variety and Quality
40050207b Beijing HONGQI [RED FLAG] in Chinese No 6, 16 Mar 88 pp 4-6

[Article by Lu Dong [0712 2639]]

[Text] Our experience over the years shows that we should depend mainly on the internal driving force of enterprises in order to improve the product quality and develop more variety. If we leave the issue on the internal driving force unsettled, it will be impossible for an enterprise to mobilize its initiative to promote a long-term and stable improvement of product quality and development of variety. How do we settle the issue on the internal driving force, and how can we stimulate and boost the awareness of enterprises on paying attention to variety and quality? This is a major task which we must tackle. I hold that in order to stimulate and boost the enterprises' internal driving force of paying attention to variety and quality, we must at present do well the work in the following aspects.

First, we should perfect the operations mechanism of enterprises, and help them really give top priority to the competitiveness of their product variety and quality in both the domestic and overseas markets.

The full-scale implementation of the system of contracted operations was a major breakthrough in last year's reform of the economic structure, which showed an effective way of separating the right of ownership from the right of operations on the basis of public ownership. We have proved that this is a sound operations mechanism for enterprises. It started their internal driving force of improving their operations and management, as well as promoting their technological advancement. In particular, it started the force of developing more variety and improving the product quality. It developed a new situation in which many enterprises urged themselves and strived to perform their contracts. According to the report of the 13th CPC Congress, the measures for intensifying reform were, in the final analysis, favorable to the development of productive forces and the improvement of socioeconomic results. The purpose of our system of contracted operations is to promote the development of productive forces and to improve socioeconomic results. The improvement of these results can be proved mainly by the availability of marketable quality products. The system of contracted operations is mainly in the form of double contracts, that is, contracts for financial delivery and technological advancement. This of course includes the improvement of quantity, variety, quality, economic results, the strength of enterprises, and, appropriately, the livelihood of workers on the basis of improved economic results. In order to promote technological advancement and to improve the strength of enterprises, enterprises must give top priority to product variety and quality, and include them in their contracts. Now, there are some enterprises which only focus on short-term interests. There is no strong link between the interests of enterprises and their product variety and quality. Instead of the double contracts, they have adopted the form of single contract, to which we should pay attention. If we adopt this simple system of contracted operations, or contracted quantity, with little or no emphasis on technological advancement or improvement of product variety and quality, we shall easily be fooled and develop toward the wrong direction.

Under the conditions of commodity economy, enterprises face keen competition in both the international and domestic markets. On the international market, the CPC Central Committee and the State Council recently decided to expand the contract system to foreign trade, and that a number of enterprises must gear to the needs of the international market and deal with international competition. Essentially, this is a competition of product variety and quality. Whoever can meet the needs of the overseas market will win. Therefore, we must do well in the work concerning product variety and quality in order to do a good job in foreign trade. The domestic market is marked by two features. One of them is the buyers' market, in which the supply of products exceeds their demand. These products become unmarketable and overstocked, and there is keen competition among enterprises. This thus forces enterprises to strive to improve their product quality in order to improve their situation

and to occupy a larger market share. This kind of competition mechanism can easily become the enterprises' internal driving force of paying attention to product variety and quality. The other feature is the sellers' market, in which products are marketable. Enterprises in this market are likely to develop the thinking that they can easily find consumers for their products, and will therefore not pay attention to the improvement of product quality and development of new variety. This is in fact a hazardous thinking. This is because every product has its life cycle. A product which is highly marketable may be replaced by a new one after some time. In particular, under the present circumstances where we open up to the outside and constantly import new technology and new products, and where China is developing new technology and new products, the pace of replacement of products will be quickened. If the manager of an enterprise focuses only on short-term interests, his enterprise may likely face difficulties some time later when its products become unmarketable. Therefore, these enterprises must also earnestly pay attention to their product quality. They should constantly study and develop new products. In other words, it is just as the common saying which goes that we must have the strategic thinking of "three generations" (having a generation of products under production, another generation of products under development, and yet another generation of products under preliminary study). As we did not have this kind of strategic thinking in this respect, many of our enterprises suffered so much that some made no progress over the years or even became bankrupt.

To formulate economic policies for the encouragement of product quality improvement by giving economic benefits to enterprises will also promote and stimulate enterprises' internal driving force. Some departments and localities have adopted the pricing policy of giving preferential treatment to quality products. They achieved good results in the work. Last year, Beijing municipality increased the economic results of many enterprises through the adoption of this policy. We should make use of this economic measure and give more actual benefits to enterprises which produce these quality products, so that enterprises which pay no attention to their product quality will suffer losses.

We should resolutely exercise the power of veto on quality, and make it play a decisive role in the distribution of wages and bonuses. We have gained much experience in this respect. The power of veto on quality applies not only to the work done by workers, but also to the work by leading cadres of enterprises. If an enterprise adopts this practice at both the high and low levels, it will eventually promote a rapid and intensive development in the work of quality control and the work of improving the product quality. All these are the important internal driving force that can stimulate enterprises and workers to improve the product quality. Of course, we also think of other measures for handling poor products. For example, we may encourage customers and consumers to file

complaints on poor products to their producers and relevant departments, or to criticize these products in the press or through other channels of public opinions, and so on.

Second, we should strengthen from top to bottom the work of quality control.

At present, many products are still sold in the sellers' market, where the demand of products exceeds the supply. Quite a number of enterprises lack the proper awareness for developing new variety and improving product quality. Under these circumstances, it is absolutely necessary for us to strengthen from top to bottom the work of quality control, to establish and perfect organizations in charge of quality control, and to strengthen the guidance of and supervision over the work of quality control. We should stress that the management of an enterprise aims at improving its economic results by improving its quality, developing new products, reducing its consumption, cutting its expenses and improving its labor efficiency. However, the key to this aim rests with the availability of marketable products. Therefore, the top priority of management is to develop new variety and to improve product quality. We must continue to adopt every measure which has been proved effective in this respect. We must not replace our direct quality control by indirect quality control, or take a relaxed attitude or become slack because of any change in the functions of administrative departments. We must systematically, continuously and unswervingly promote the management work of quality control among large and medium-sized enterprises. We must continue to uphold and perfect the system of examination of export products, including the appointment of representatives to export-oriented enterprises, which is on a trial basis. We must continue to do well in the work concerning examination of enterprises' quality, the quality guarantee system, and quality control teams. We must earnestly strengthen the fundamental work concerning standards and measurement. We should also uphold and promote the system of responsibilities linked to product quality, and the issuance of production permits. We must uphold and constantly perfect all methods and measures that are favorable to strengthening our quality control.

Our chief aim of upgrading enterprises is to assess their performance in terms of quality, consumption and economic results. This is consistent with our promotion of full-scale quality control. Only when we have strengthened control, particularly quality control, can we improve in a better way their quality and upgrade them. In order to do this, we must give top priority to the control of variety and quality.

Third, we should focus on the improvement of quality and mobilize the initiative and creativeness of business operators, technicians and workers, and strengthen their awareness of developing new variety and improving quality. We should adopt the following measures in this respect.

One of them is that we must award any enterprise which has made contributions to the improvement of product quality and the development of variety, and give extra awards to enterprises which have made special contributions. On giving awards to business operators, we may formulate policies that the amount of awards may be up to three times of those received by workers. However, we still have not duly emphasized on awards to be given to outstanding technician-cadres and aged workers, to which we must pay close attention.

An important reason that some export-oriented town and township enterprises can do better in the work of improving their quality and developing variety is that they introduced the policy of giving awards to their business operators, technicians and workers, and they widened the income differentials. This practice should also be adopted by enterprises owned by the whole people.

The other measure is that we should grasp firmly education and training in quality control, and help the staff of enterprises get a better understanding of the significance of quality control. The work of education and training by enterprises must focus on improving quality and accelerating the pace of developing new variety and techniques. Today, the reason that the quality of some products cannot improve is not only because workers' initiative and creativity has not been fully mobilized, but also because of low quality to begin with. Through education and training, we must improve their educational background and technical knowledge, so as to boost their awareness of improving quality and to know how to do so, as well as how to develop new varieties.

Fourth, leading cadres at all levels must establish the macroscopic guiding ideology of giving top priority to quality, and gradually switch their present direction of development, which focuses on speed and economic results, to a direction which focuses on intensive economic results.

We must not simply go after speed at the expense of objective possibility or quality. We must apply advanced technology to our work, particularly the advanced management skills including the full-scale quality control and the "fully loaded work method," so that enterprises will change from extensive operations to intensive operations. A rational speed may bring about better economic results. However, if we push the speed beyond the limits of objective conditions, quality will be adversely affected. We shall neither be able to guarantee the product quality nor the realization of economic results. The consequences will be contrary to our expectations, which is a problem to which we should pay special attention.

Reform the Material Management System, Develop the Capital Goods Market

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No 6, 16 Mar 88 pp 7-11*

[Article by Yuan Baohua [5913 1405 5478]]

[Text] Over the past 9 years, China has been carrying out a reform of the material management system, with the product distribution system being replaced with the commodity circulation system. Many major breakthroughs and significant progress have been made in both theory and practice. Reform in this field has now entered a new stage. Comrade Zhao Ziyang pointed out in his report to the 13th CPC Congress: "The main task at present in deepening the reform is to change the managerial mechanisms of enterprises and, with that end in view, to institute supporting reforms in the systems of planning, investment, allocation of materials, finance, monetary affairs, and foreign trade. Thus we shall gradually establish the basic framework for a planned commodity economy." At present, the main task in deepening the reform of the material management system is to further cultivate and perfect the production materials market and to realize the economic operation mechanisms through which the state regulates the market and the market guides enterprises.

I

Since the 3d Plenary Session of the 11th CPC Central Committee, we have adopted a series of measures to reform the material management system to invigorate enterprises and develop a planned production material market through gradually realizing indirect macroeconomic control and overcoming the defects in the old system. For example, we have narrowed the quantity and scope of materials subject to mandatory distribution plans, thus enabling the enterprises and localities to have more materials and products at their disposal; we have adjusted the official prices of some materials and decontrolled the prices of other materials on markets outside the limits of planned control; we have encouraged lateral material exchanges and promoted the material management institutions to orient their business to the markets, thus changing their functions and giving rise to more than 300 production material trade centers; and we have also spread Shijiazhuang City's experience in expanding the production material market and have set up a number of markets for steel products in the country. These reform measures have brought about major changes in three aspects of production material circulation: First, the traditional material distribution structure has been broken, and materials are no longer merely distributed and transferred through administrative channels, but are also circulated in the form of commodities through markets; at the same time, the producer enterprises have more power to determine the purchase and marketing of various materials. Second, various production material markets on different scales have taken shape, and the market mechanisms have been more

obviously playing a regulatory role in economic activities, thus stimulating the enterprises to increase the production of goods in short supply. Third, we have gained useful experience in indirectly regulating and controlling the circulation of production materials by using various economic means. This has created a more favorable external environment for the invigoration of the enterprises, has laid a foundation for the production material market system, and has made major advances toward the state's indirect economic management and control. So we can say that these changes and reform results have created necessary conditions for deepening the reform of the material management system and for further developing the production material markets.

However, we should also soberly note that we have merely achieved initial results and made limited progress in the reform of the material management system, and our reform in this field is still far from fulfilling the general reform objective. At present, the main problems are: There are still too many materials subject to mandatory planned distribution by various departments; the supply and marketing mechanisms are still controlled by more than one administrative department; barriers remain between different departments and localities in the area of material circulation; there are too many material management organs, and this prevents us concentrating our material resources and blocks the circulation of materials; too large differences exist between official and market prices for many materials, and prices cannot reflect the actual condition of supply and demand; and the material handling enterprises have not made substantial progress in separating their management from state ownership and in adopting the more effective management systems to improve their business. That is, we have not yet established an integrated and open production material market.

Market is an economic category which is related to the commodity economy. The socialist economy in our country must experience a stage marked by the full development of the planned commodity economy. Our country is now in the initial stage of socialism with our productive forces still at a low level and uneven economic development throughout the country. We have large-scale enterprises which are conducting socialized mass production, and also have a large number of small enterprises. As a production factor, the production materials must be produced, supplied, and consumed with strict continuity and coordination, and there are few substitutes for such materials. So it is necessary to build a production material market as a circulation system corresponding to these characteristics in light of the objective requirements of the development of the planned commodity economy. Under the old system, the state mainly relied on mandatory plans to distribute, transfer, and supply materials, and to directly control the material supply and marketing of the enterprises. This excluded the functions of the market mechanisms, broke up the internal economic ties between the enterprises, and hindered the development of the productive forces.

Under the new historical conditions of developing a planned commodity economy, enterprises are the main bodies responsible for commodity production and exchange. On the one hand, their products must be subject to exchange at equal value on the markets; on the other hand, the socialist commodity economy built on the basis of public ownership makes it possible for the nation to consciously ensure the coordinated development of the national economy. That is, planning and the market will cover all of society, and the integration of the two things will determine the character of the production material circulation system. The integration of the planning and market mechanisms will base our planning work on the law of value, and will coordinate the demands on various production materials with the limited supply through the signing of supply contracts between the state and enterprises and between different enterprises on the principle of exchange at equal value. At the same time, through exercising macroeconomic control and enlivening microeconomic activities, the economic activities of the state, the market, and the enterprises can be effectively coordinated, and direct control over materials can be gradually replaced by control over the value of goods. This will rationalize the distribution of our material resources and ensure that material resources are used more efficiently in society. At present, the orientation and basic guideline for deepening the reform of the material management system can be described as follows: On the basis of maintaining the overall balance between supply and demand of major materials, we will gradually narrow the scope of mandatory plans and expand the scope of guidance plans and market regulation so as to guide enterprises to increase production of goods in short supply; supply and demand of materials will mainly be adjusted through economic means; production material markets will be organized under unified leadership, focusing on central cities, to guarantee the state's needs of key materials, invigorate the enterprises, and promote the development of the planned commodity economy.

II

In light of the general tasks of reforming the economic structure in the present stage as put forth by the 13th CPC Congress, and in view of the new situation in handling the circulation of production materials, our immediate tasks in deepening the reform of the material management system are mainly as follows:

First, further narrowing the scope of mandatory plans and reforming the planned management of materials. In recent years, the number of materials subject to distribution according to mandatory state plans has been reduced, but many are still being distributed and transferred by various departments and have not yet been put on the markets. It is obvious that too many materials are still subject to the administrative distribution of various departments in charge. So we must examine the materials which are still subject to the administrative distribution of various departments in light of the requirements

of narrowing the scope of mandatory plans, and classify the materials according to importance and their supply and demand conditions. Then, basic materials and materials in short supply can be further brought under control, but intermediate products, end-products, and materials whose supply can meet demand should be further decontrolled. In a certain period, the state should only directly control a very small number of key projects and special enterprises and some important materials which are in short supply. So, after examining and classifying materials, the state will continue to lay down mandatory plans to guarantee the important raw materials and fuel needed by key state enterprises; will coordinate the supply and demand of some important mechanical and electrical products and equipment by placing state orders with the manufacturing enterprises or by organizing the signing of supply and purchase contracts between the manufacturers and users; and will allow more ordinary raw materials and industrial goods to be sold and bought freely on the markets on the foundation of a basic balance between supply and demand of these goods. After such adjustments, the number and quantity of materials controlled and distributed by various departments will be greatly reduced. Meanwhile, competition mechanisms in the form of inviting open tenders will also be introduced in the supply of various mechanical and electrical products. This will help stabilize the economy, guarantee key construction and production projects, and will also substantially expand enterprise self-determination in the area of materials management, thus invigorating commodity circulation in general.

Second, gradually stopping the material management function of various administrative departments, and establishing a new state department responsible for managing materials in an all-round way. At present, all ministries and administrative departments are performing materials management functions in varying degrees. They distribute these materials through mandatory plans and thus directly control the production, material supply, and marketing of the enterprises. With materials being separately managed by different departments, the material resources are scattered, and the state's macroeconomic regulation ability is weakened. Without changing the functions of the government departments, we will not be able to carry out the political structural reform and to deepen the economic structural reform. Therefore, it is necessary to change the material management function of various economic departments of the State Council and gradually shift this function to the state material management department.

Perhaps, some people are worried that this change may hinder the circulation of materials and the forming of the production material markets. Such worries are unnecessary. Comrades who have such concerns may erroneously regard the current reform measure as something similar to the centralized management of materials in the 1960s. In fact, the two measures are completely different. In the 1960s, we pursued a highly centralized product economy; while now, we are trying to further

enliven the purchase and marketing activities of the manufacturing enterprises, to cultivate and develop the production material market, and to develop the planned commodity economy. In particular, when we are now carrying out and gradually deepening the political structural reform, the shift of the material management function from the economic departments to a state material management department will promote all-round changes in the functions of the government departments. In addition, the relative concentration of the material resources in the hands of the state will make the circulation of materials more efficient, will reduce the stockpiling of materials, and will increase the state's ability to regulate and control the markets, thus more powerfully breaking down the barriers between departments and localities and paving the way for the development of an integrated production material market. Therefore, the present "unified" management is a reform measure which serves the purpose of further enlivening and decontrolling the circulation of materials. Of course, when we relatively concentrate our material resources, we should also take measures to prevent new monopoly.

Third, spreading Shijiazhuang City's experience to the whole country. As we all know, Shijiazhuang's experience can be summarized into one point, that is, substituting the distribution of actual materials with the method of value compensation. Shijiazhuang City solved the problem of dual prices for materials and reformed the system of planned material distribution. It created a new method of "manufacturers selling materials within and beyond the scope of distribution plans at the same price with price differences being returned, thus gradually expanding the markets." After Shijiazhuang's experience was introduced to 40 cities in the country, obvious results were achieved in coordinating the supply of materials between the two parts within and beyond the distribution plans, expanding the power of the enterprises in handling materials, rationalizing the structure of materials in stock, reducing material stockpiles, mitigating the friction between the two price systems, and checking irregular practices. Shijiazhuang City's experience should be spread and improved in the whole country so as to expand the scope and results of the reform. Steel products, nonferrous metals, timber, and cement should be sold at the same price by the producer no matter whether these materials are subject to planned distribution or not. For that part of materials within the scope of planned distribution, the price difference is collected by the state department concerned, and then returned to the users. Meanwhile, for some key materials in short supply, the resources beyond the scope of distribution plans should also be handled in light of the "Interim Regulations on the Prices of Important Production Materials and Transportation" and the "Interim Management Methods of Unified Price Ceilings for Production Materials Beyond State Plans in the Whole Country" recently promulgated by the State Council. That is, such materials must be sold and bought through the authorized units, and over-the-counter and

under-the-counter trade are all prohibited. This will to a degree increase the equal competition opportunities between the enterprises on the market, and will increase the transparency of the market. Then, even though the price reform for production materials cannot be thoroughly carried out in one move, we still can promote the circulation of materials through markets, and lay a good foundation for the establishment of a unified production material market.

Fourth, gradually separating the functions of enterprises from the functions of government institutions. A major defect of the old system was the confusion of the functions of enterprises and government institutions. In the reform of the material management system, we should take the separation of enterprises from government institutions as a major reform task. The state management department is a functional department responsible for drawing up overall plans for the circulation of production materials and for managing the materials under the State Council. Its main tasks are to maintain the comprehensive balance between supply and demand; to conduct overall control; to coordinate social services; to conduct comprehensive management over the major materials that have a bearing on the national economy and the people's livelihood mainly by economic and legal means, as well as by some necessary administrative means; to develop the production material market; to guide enterprises to purchase and sell materials; and to enliven the circulation of materials. Various material distribution enterprises, especially some large and medium-sized state-owned material distribution enterprises, should explore effective methods to separate their work from the administrative functions they performed before, and shift these functions to the material management departments of governments at all levels. At the same time, they should really perform their functions as enterprises in handling materials, and should turn themselves into economic entities which conduct independent accounting, bear sole responsibility for the profits and losses, and determine their own business practices. Their business style should open up, and they should more effectively meet the needs in production and construction. Material distribution enterprises at various levels should gradually free themselves from being affiliated organs to the government. In their relations, they should treat each other as business partners. Inside these enterprises, the manager responsibility system based on the formulation of tenure targets should be adopted in an all-round way. Various contracted management systems should also be actively adopted to promote the transformation of the management mechanisms. To guarantee the fulfillment of the task of supplying key materials needed in key state production and construction projects, the state can authorize some large material distribution enterprises as special suppliers under a kind of agent system. These enterprises can keep a separate account for overheads incurred in the course of acting as the state's supply agent. If they make a profit, then the profit should be turned over to the state; and if they

incur a loss, they can claim a corresponding state subsidy. This will ensure the smooth fulfillment of the supply tasks and will also guarantee the economic interests of these enterprises.

Fifth, further developing lateral economic ties in the field of material circulation with reliance being placed on large and medium-sized cities. This is required by the development of the planned commodity economy, and there are broad prospects for such development. In the current reforms, the state and local material departments should actively organize material exchanges on the principle of exchange at equal value between different localities and between different enterprises, and should actively explore effective ways to develop various forms of trade, including barter trade, compensation trade, and resources development so as to promote the lateral circulation of materials. Material distribution enterprises should break down the barriers between departments and localities to promote the rational circulation and recombination of funds, materials, and other production factors through making joint investments and buying stocks in each other. This will more efficiently organize the circulation of materials. The association between material distribution enterprises and between material distribution enterprises and production enterprises will increase the financial capacity and build up the ability to develop the production of items in short supply, and will help supply each other's needs and rechannel oversupplied materials to needy units. This will fully tap our material potential.

The new economic operational mechanism in our country will give expression to "the state's control over the markets and the markets' guidance to enterprises." The reform of the material management system in the above-mentioned five aspects all serve the purpose of realizing this new mechanism. Practice has shown that only by putting the enterprises in the arena of commodity production and commodity exchange and pushing them into the sea of market competition to learn to swim can we fully develop their vigor in production and business management. Under the guidance of state plans, we will build a unified and open market system for production materials. This is the main objective of our current reform of the material management and distribution system.

III

The reform of the material management and distribution system involves a wide range of matters and must be carried out strictly according to the central policies. To ensure success in this reform, we should pay special attention to the following issues:

First, reform must rely on the emancipation of people's minds and the changes in people's ideas. Comrade Zhao Ziyang recently pointed out that it is necessary to further emancipate people's minds and further emancipate the

productive forces. He said: The formulation and implementation of all reform measures in recent years were results of mental emancipation. If we really emancipate our minds and respect practical experience and the masses' creations, we will be able to work out better methods and programs. In a word, mental emancipation is very important for reform!

To emancipate our minds, we should arm our minds with the spirit of the 13th CPC Congress, and should proceed from this spirit when assessing and analyzing the new situations and new problems in the 9 years since reform began, thus changing our ideas and concepts. In the reform of the material management system, I think that we should adapt our minds to changes in three aspects: The change from a product economy to a commodity economy; the change from direct management to indirect management; and the change from the combination of administrative functions with enterprise functions to the separation of the former from the latter. Only by adapting our minds to these changes can we find a set of new ideas and new methods that are suited to the requirements in commodity development in our country and are favorable to the development of productive forces. Of course, it must take time to complete such conceptual changes, and it is impossible to complete such changes overnight. However, we must continue to emancipate our minds, carry forward the reforms, and try to create more favorable conditions for completing these changes.

Second, reform should be closely linked with development. The reform of the material management system requires a more relaxed economic environment, which will appear only when we continue to deepen the reforms and develop productive forces. Therefore, we should coordinate our reforms with overall economic development, and closely link the two things. Thus, we should maintain the overall balance between supply and demand of key materials. This is not only an objective requirement but also a major step in the reform of the material management system. In particular, with some materials in short supply, we should, on the one hand, increase their production and expand their resources through reforms and through emancipating and developing the productive forces; on the other hand, we should also work out necessary measures to restrain the demand. In our planning, we should also change our planning concepts. We should notice that the development of the commodity economy, in a certain sense, will expand the scope of planning and will introduce additional elements to our planning work. Planning not only covers the material distribution according to mandatory state plans, state purchase contracts, and state coordination of supply and demand; it also includes lateral material exchanges at equal value between localities and between enterprises. Therefore, the state material management department should consciously apply economic information and economic policies to give planned guidance to the supply and demand of materials in the entire

society. All this will better combine reform with economic development, and will continuously deepen various reform measures in a stable economic environment. In turn, the deepening of economic reforms will ensure economic prosperity and stability.

Third, we should always give consideration to the overall situation and national interests and prevent incoordination in our work. The successful reform of the material management system will promote changes in the government functions, will facilitate the forming and perfection of the production material markets under state control, and will develop the circulation of materials in our country, thus greatly speeding up the pace of our four modernizations. Therefore, our comrades in all departments and localities should treat and understand the reform from this high plain, and make joint efforts and cooperate closely. We must never be preoccupied with partial and departmental interests and neglect overall and national interests. Of course, like structural reforms in other fields, the reform of the material management system will certainly bring about the readjustment of powers and interests. If things are not properly handled, present production and construction may be adversely affected. Therefore, before the new systems are completely established, departments and localities must not recklessly disrupt the existing material supply channels; instead, they should maintain the normal operation of these channels and the existing organizations in the field of material distribution. Material supply, the placing of orders, and the delivery of materials must all be guaranteed, and in particular, the material needs of key state enterprises and construction projects must be met. During the current reform of the material management system, some institutions will be reorganized, but they should continue to perform their duties and must not relax their efforts because of the possible changes in their functions, powers, and interests, and must not cause any confusion and chaos in our economic work. After the new management system is established, duties should be seriously passed from the old institutions to the new ones. In the reforms, all departments, localities, and units must strictly abide by the stipulations of the relevant documents of the State Council. Supervision, auditing, and other economic supervision departments at various levels must closely watch the reform of the material management system, and should immediately report to the governments at various levels whenever any problems are discovered and seriously handle law-breaking and discipline violation cases without delay.

Fourth, reforms must be carried out in an orderly way with priority being given to some key points. The reform of the material management system will affect things in many fields and will encounter many contradictions and difficulties. In order to gain experience and avoid detours, across-the-board reforms should be carried out after pilot schemes achieve successful results in a number of cities. The purpose of the pilot schemes is to test the feasibility of the reform plans through practice, and to expose possible problems in the course of reforms so

that we can work out countermeasures to cope with these problems. Once reforms are carried out in an all-round way, they must succeed and must not fail. Therefore, we should strengthen leadership over the reform of the material management system, and carefully organize and guide this reform. We should speed up the pace of the reform and deepen the contents of the reform, but we must not rush headlong into mass action and arbitrarily enforce "uniform" measures. Various provinces, autonomous regions, and municipalities should reform the material management system in light of their own special conditions under the premise of stabilizing the economy and guaranteeing the supply of materials needed in production and construction. Their reform programs can be worked out by taking the reform program of the State Council's leading group for reforming the material management system as reference, and be put into practice with the approval of the provincial, autonomous regional, and municipal people's governments.

The fundamental purpose of the reform of the material management system is to emancipate and develop the productive forces of our country. The basic task of the material supply work is to serve production. The invigoration of circulation and the guarantee of material supply are the major criteria for judging whether our current reform is successful. We believe that under the leadership of the party Central Committee and the State Council, so long as all of us can emancipate our minds, make concerted efforts, and work in a down-to-earth manner to strive for the established reform objectives, our reform will certainly be successful.

On Reform of China's Investment Management System

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[Text] Over a long period of time, China's fixed capital investment was basically financed by a single channel—the state budget; and various investment activities were mainly directly arranged, organized and managed by the central government. Under this management system, power is very concentrated, and the government departments are responsible for the entire investment process consisting of elements ranging from raising of funds, allocating investment, deciding investment projects, planning, evaluating and approving projects, carrying out construction work of investment projects, to production and management, and so on. The government not only exercises its administrative and management powers, but also the ownership and the management power of investment. Government departments tightly control many aspects. They control too many things that they should not control. In fact there are many things that they are not able to control, and the results are not good. Under this investment management system, investment funds can be used without paying compensation to the

state, and money will be wasted through various outlets. On one hand, the construction units will "eat from the big communal pot of the state." They tend to use every means to get investment funds and approval for investment projects from the state. However, they do not have the enthusiasm to increase the returns on investments. On the other hand, departments responsible for making investment decisions also "eat from the big communal pot of the state." They only care about making investment decisions and do not care about the sources of investment funds. They have the power to spend money on investment projects, but not the responsibility to recover, and to increase the value of, investments.

Over the past few years, China has implemented reforms in the traditional investment system. For instance, the power to evaluate and approve investment projects is transferred to lower levels, and the procedures involved in evaluating and approving investment projects are simplified; instead of being financed by financial allocations, investment projects are financed by bank loans, and the system of using investment funds with compensation is adopted; a competitive mechanism is introduced into the investment system, and a tender-bidding system is adopted to choose construction units for investment projects; and so on. At present, the scope of investment has been changed significantly: Diversified investment channels and diversified investment main bodies are formed; the amount of investments not included in the budget increased rapidly; enterprises and local governments are given a certain power to make investment decisions, and so on. Under such circumstances, contradictions and conflicts have emerged between the traditional investment system, which is not yet thoroughly reformed, on one hand and the new phenomena arose in economic lives on the other. Therefore, it is an urgent task to deepen the reform of the investment system.

The direction of the reform of the investment management system is to include investment activities into the path of a planned commodity economy, so as to give play to the regulatory role of the law of value. Therefore, we should solve at least the following four problems.

First, the division of labor among various investment main bodies in the society should be clearly defined, and the microeconomic regulatory mechanism should be perfected.

A new investment-operation mechanism should be established; and it should include both the macroeconomic and microeconomic regulatory mechanisms. The microeconomic regulatory mechanism, which is the self-regulatory mechanism of various investment main bodies, is the foundation for the new mechanism. Various phenomena such as runaway of the scale of investment, irrational investment structure, poor returns on investment, and so on have emerged continuously in China's economic lives since 1984. One of the main reasons for these phenomena is: Although enterprises and local

governments have a certain degree of investment capability and a certain power to make investment decisions, they do not have any corresponding economic responsibilities; although they have the enthusiasm to invest, they are not responsible for any risks; and although they have the motive to invest, they do not have any corresponding restraining capability. These phenomena illustrated that when investment main bodies do not have a self-regulatory mechanism, irrational investment behavior will inevitably result.

In order to perfect the self-regulatory mechanism of investment main bodies, the division of labor among different investment main bodies in the society should be clearly defined. This is because a diversified structure, in which various investment main bodies such as the central government, various levels of local governments, enterprises, business units, private individual Chinese investors, foreign investors, and so on coexist, is already formed in China. Different investment main bodies have different economic status, and their economic interests are different. Their motives and objectives of investment are not the same; and the conditions constraining their investments are also different. Thus, the regulatory mechanism of the investment behavior of different investment main bodies should also be different. In the aspect of the orientation of investment funds, different investment main bodies have different directions, and the functions of the fixed assets formed by different investment main bodies are also different. Moreover, their directions of interests, the form of feedback of the value of their investments, and the economic scale and the volume of funds input in a time are different too. Therefore, different types of fixed asset investment will fit the behavior of different investment main bodies. Only when the investment scope of different investment main bodies can fit their status, interests, and behavior, their power to manage their undertakings will fit their property right, and then can an investment operation mechanism combining tightly the authority, responsibility, and profits be established.

There is a type of investment called operational investment. This type of investment can form industrial, agricultural, and construction productive capacity. The directions of interests of this type of investment are clearly defined. The persons who invest their funds in this type of investment will get direct corresponding returns from this type of investment. When the fixed assets formed by this type of investment are used, the value of these fixed assets will be gradually transferred to the products and services produced; and through exchange, this value can be reclaimed, and the total investment value will thus be increased. Changes in the market will have decisive significance on this type of investment and its investors. Therefore, this type of investment can fit enterprise behavior well. As an economic entity that can make its own independent management decisions, and assume full responsibility for profits and losses, an enterprise will have independent economic interests; and its investment motive is to get

direct economic returns. In obtaining investment returns, enterprises should be responsible for risks. This is a rigid constraint. The management results of an enterprise will directly determine the returns that it will obtain; while the amount of returns achieved by the enterprise will determine the investment behavior of the enterprise. If the amount of the expected returns on investment is high, enterprises will increase investment on their own initiative, and will invest in the products, industries, and areas that can bring great returns. On the contrary, if no return can be obtained or when the risks are too high, enterprises will constrain themselves. They will not invest, will only invest less, or will even withdraw the funds that they have already invested. This is the self-regulatory mechanism of enterprises; and this is also the management mechanism of commodity producers. With this self-regulatory mechanism, enterprises will decide by themselves whether they will invest or not, what to invest, how much to invest, and so on in accordance with the changes in the market. Therefore, in deepening the reform of the investment system, power should be transferred to lower levels and enterprises should have the right to retain returns, so that enterprises can have the capability and motive to undertake operational investment. At the same time, the responsibilities of enterprises should be determined and fixed, so that operational investment of enterprises will have both risks and restraining capability.

Another type of investment is the investment in infrastructure and social public facilities. A characteristic of this type of investment is that the direct economic returns achieved by this type of investment are not very great, but the social economic returns achieved by these investment projects are very significant. This type of investment carries a social service nature. A part of the value of this type of investment will be recovered through market exchanges; while the other part will be compensated, in accordance with the quantity of the social services it has provided, by state finance. This type of investment suits the investment behavior of the state.

Generally speaking, in deciding state investment, macroeconomic returns are the main factor that will be taken into account, while government at various levels should decide their investment behavior on the bases of the interests of the state. The central government will forecast macroeconomic investment returns, and regulate the amount and directions of investment through comprehensive balances in planning. Therefore, the scope of the division of labor of state investment should include these elements: 1) infrastructural investment; 2) investment in the public facilities of the society; 3) investment in new industries and national defense industry; 4) investment that serves as a macroeconomic regulatory means in coordinating the directions and distribution of the investments in the society.

Another type of investment is the investment in housing. For the residents, this type of investment is not an investment but a type of consumption expenditure spent

on obtaining the use value of the house, and on satisfying their accommodation needs. On the other hand, the investment in housing productive capability, similar to the investment in other types of productive capability, is being operated in accordance with the regulatory mechanism of operational investment. Therefore, the reform of the investment system should be coordinated with the reform of the housing system. Thus, the management mechanism of the city and town housing system and the low-rent system should be reformed, and commercialization of housing should be implemented. On the bases of the principle of equivalent-value exchange, enterprises producing housing units or enterprises managing housing units will sell or lease the housing units to consumers to satisfy their accommodation needs. Consumers will then use their income to pay the price or rent for the houses accommodating them. This is the operational mechanism of housing investment.

We have to clearly point out that the move to clearly define the division of labor among various investment main bodies in the society does not necessarily mean that such division of labor should be defined and stipulated by legislation. It also does not imply that the investment activities of various investment main bodies will be constrained. The purpose of such move is to give the government economic managers and decisionmakers a guidance principle. This principle will be taken by them as the theory on which they will rely when they are studying and formulating economic regulatory policies and economic development policies.

Second, government functions should be decomposed, and the system of managing state investment by economic means should be adopted.

At present, state investment projects are decided and managed by the government. Practices proved that this system has two defects. First, the government is exercising two powers. On one hand it is exercising administrative and management powers, and it has economic regulatory functions. On the other hand, it is exercising state ownership, and it has investment project (assets) management functions. There are differences in the nature, contents, characteristics, and the forms and methods of activity between these types of power and function. As a main body exercising administrative power, the government is a public affairs manager above various economic entities. It manages the common interests of these entities, regulates their contradictions, upholds economic order, and ensures national economic development. Under this system, administrative departments are mainly connected by a vertical relationship. When authority is being exercised, departments at lower levels are obviously compelled to obey the orders passed down by upper level departments. As a main body exercising the ownership of state investments, the government is mainly connected to other investment main bodies by a lateral relationship; and there is no subordinating vertical relationship between the government and other main bodies. As an investor, the economic status

of the central government, provincial governments, municipal governments, county governments, township governments, enterprises and individuals are equal; the economic relationships among them should be built on the bases of the principle of mutual benefits; and the principle of equivalent-price exchange and the principle of voluntary coordination should be upheld in handling matters. As an investor, governments at various levels are certainly concerned about the decisions on and the implementation of their investment projects. They are also certainly concerned about the production management and the making of the management decision of their investment projects when these projects are completed and put into operation.

Apparently, the administrative and management powers on one hand and the investment management power on the other expel each other in many areas. Under the traditional system, the government has both types of power and it exercises them at the same time. Therefore, these two types of power interfere with each other, and disorders in economic relationships resulted. This is one of the two defects.

Second, within the government, various investment management links are divided by sections (departments). In general, planning departments are in charge of making investment decisions, and are not responsible for the returns on investment. Finance departments are in charge of recovering investments (through taxation and the collection of the investment profits surrendered to the state), and they are not responsible for making investment decisions. Under such circumstances, the power to make investment decisions is separated from the power to recover investments; and power and responsibility are thus separated. Moreover, not only the units responsible for carrying out the construction work of investment projects are "eating from the great communal pot of the state," the departments in charge of making investment decisions are also "eating from the great communal pot of the state."

Therefore, government functions must be decomposed, a state asset management system should be established, and a system of managing state investment by economic means should be implemented. The state investment management system should mainly include the following points:

1. State investment projects should no longer be financed by the budget. A state construction fund should be established to ensure stable sources of funds for basic construction investments. Thus, long- and medium-term investment plans can be fixed, and construction projects can be organized in reasonable time periods.

2. A state investment management committee (or a state construction fund management committee) should be organized and established as a main body of asset ownership that can exercise the ownership of state investments. This committee will be specially engaged in

managing state investment projects. It will also be the highest state investment decisionmaking department responsible for evaluating and approving state investment budgets, and for determining and fixing the management objectives of investment management enterprises and the targets of investment operation.

3. Investment companies (or investment development banks) should be organized and established as economic entities that can exercise investment management power. To become the professional management enterprises of state investment, investment companies will be financial departments of the state that can formulate policies, and will be under the guidance of government departments. Moreover, they should have the aim to thoroughly implement the policies, and to thoroughly achieve the targets, of the state. At the same time, they also should be enterprises with legal entity status, and have the power to make their own independent decisions. Investment companies will directly contract the construction tasks of investment projects from the investment management committee. They will determine and choose the best investment projects according to the industrial policy and the constraints on funds. Moreover, they will also be held responsible for recovering the investment funds and for raising the value of the investments. Neither will the investment management committee nor government departments directly interfere with the investment companies in making management decisions.

4. The investment companies will choose the construction units or the joint-venture partners of investment projects through inviting tenders or the method of subscribing shares. They can also directly choose the management contractors of the construction projects through the method of tender-bidding. Then the management contractors can sign contracts with the construction contractors of the projects. They will supervise the construction of the projects and will be responsible for managing the projects when they are completed and put into operation.

5. Apart from a portion that will be used to develop the business of an investment company, the profits achieved by the management fund of an investment company should be collected by the state as a source of the state construction fund; and this portion should be added to the fund.

The implementation of the system of managing state investment by economic means has the following superiority. First, the authority, responsibilities, and profits of the main body of asset ownership will be separated from that of the management main body. The main body of asset ownership will carry out the will of the state, and will proceed from the objective to obtain macroeconomic investment returns to allocate investment. Management main bodies will carry out the requirements of the main body of asset ownership. At the same time it will

take into account the market situation and microeconomic returns in determining construction projects. It will be responsible for recovering investments and for increasing the value of investments. Second, investment activities of the state will be introduced into the market so that investment management can have a self-constraining mechanism. When ownership is separated from the management power, similar to other enterprises, investment companies will compete on equal bases with other enterprises in the market, and will be tested by the changes in the market. In managing investment projects, investment companies will proceed from their own interests. They will not be regulated only by plans, but also by the market. Third, the government will only exercise administrative and management power, and will become a manager above enterprises. It will treat various investment main bodies and management main bodies equally without discrimination, and will proceed from the point of obtaining macroeconomic returns on investment to regulate the investments in the society. Moreover, it will guide the directions of market activities through a comprehensive balance in planning and various economic means, so that investment management activities can be regulated.

Third, the method of investment funds allocation should be reformed; and a long-term capital market should be developed.

As a type of long-term capital, the fixed-asset investment in China in the past was basically financed by a single investment channel—the state; and the funds are only allocated, in a vertical and concentrated manner, by the plans. Over the past few years, a new investment structure has been formed in the course of reform. A double-channel system is thus adopted in financing state investments. Under this system, state investments are financed by financial allocations and loans. Apart from the funds supplied by enterprises themselves, their investment projects are mainly financed by bank loans. This system of funds, basically, is still directly regulated by state plans (the amount of various funds are controlled by planned quotas); and it still has the characteristic that investment funds are vertically allocated by administrative means. Therefore, two obvious defects are resulted: First, the investment main bodies do not face the market, and do not have to compete for funds. Although they no longer compete among themselves for investment funds and investment projects from the state, as they did in the past, they now compete for loans from banks. Their motives and behavior are no different from the past. Consequently, they are still not strongly constrained by the returns and responsibilities of investment; and the root of the phenomenon that investment projects are taking funds from the “great communal pot of the state” is not yet removed. Second, rational lateral funds circulating channels have not yet been established. The money is held by the departments. Thus, investment projects that can bring good investment returns, and that should be urgently constructed, do not have funds for

implementation. Moreover, blind construction, duplicated construction, and the construction of projects that do not reach any economic scale and can only bring low returns are very common.

Therefore, at the same time while the division of labor among various investment main bodies in the society is being clearly defined, and when the system of managing state investment by economic means is being adopted, it is indeed a necessary measure to establish and develop a long-term capital market, and to perfect a lateral fund-raising and short-term loan syndicating mechanism that has diversified channels and diversified forms.

The long-term capital market should be a product that suits socialized mass production and the characteristics of diversified main bodies of funds ownership. It thus should become an important condition for promoting the development of a modern commodity economy, and it should also become a part of the Chinese socialist market system. The special function of a capital market is that it will use long-term credit tools, such as shares and various types of bonds, as a medium to change the previous resource allocation decisionmaking process, which was a material allocation method controlled by administrative orders, into a process in which resource allocation decisions are made through monetary transactions. Through the issuing, subscribing, and transfer of priced-shares, and a series of open activities, the market mechanism will be thus really introduced into the investment decisionmaking process, and a democratic economic atmosphere will then be created. The turning of the resource allocation process into a market one will inevitably bring profound changes to the Chinese investment management system and the Chinese enterprise management mechanism.

First, the replacement of the method of direct government allocation of enterprise investment funds by a long-term capital market will change the long-term situation in which enterprises "ate from the great communal pot of the state" and obtained investment funds from the state. The investment impulses of enterprises will be tested by the market; and the cost incurred in funds raising, and investment risks will coexist with the expectations on the investment projects. Such a management situation will be of help to the formation of a microeconomic self-constraining mechanism that has still not yet been formed. With this mechanism, the expansion in investment will no longer be an inevitable phenomenon resulted from a system.

Second, indirect government regulation and control of investment activities can be achieved through the long-term capital market. In the past, the method adopted to maintain a balance between social aggregate demand and supply was to fix the credit amount and the scale of investment by mandatory plan indicators. This method thus suppressed the inherent demand of enterprises; and the vitality of the economy was dampened. Moreover, under the situation that a large number of investment

main bodies, which do not belong to the state economic sector, exist in the present stage, the means of direct control have already lost their previous significance and cannot do much in regulating investment activities. The characteristic of the operation of the long-term capital market is that it will face all the investors in the society and allocate investment funds in accordance with the management laws of a commodity economy; and the behavior of investors, basically, will be a response to market signals. Under such circumstances, the government can interfere with the capital market through the volume of money supply and the monetary policies controlled by it. Thus, the intentions of the policies of the government can be transmitted to various investment main bodies, and their behavior will then be changed. Therefore, indirect regulation and control by the government can be achieved.

Third, a long-term capital market can develop an outlet for the free flow of resources, with which the efficiency of the use of funds can be increased. On one hand, this market can give the projects that have high economic returns the advantages in drawing in funds; and the potential of the society can thus be developed through lateral syndicating of loans. In such a way, economy of scale of investment projects can be ensured. On the other hand, this market can open to the diversified investment main bodies investment opportunities in various industries and sectors. Thus, investors can overcome the close and re-cycle situation (that means a situation in which the original scale of production is duplicated and expanded). Moreover, in accordance with their individual assessments of the expected returns on a large number of investment opportunities, the investors will decide the directions in which their funds will be invested. As a result, a mechanism with which funds will naturally concentrate in the industries or regions that can bring high returns will be formed. Even for the investors who will totally use their own funds in investment and construction, they will also pay attention to the signals of opportunity cost sent out by the long-term capital market, and will regard these signals as an important parameter for them to make investment decisions. Generally speaking, when the market interest rate of funds is higher than the expected profit margin of an investment project, investors would rather use their funds to buy bonds than to invest. These transactions of bonds in fact are the decomposition and composition of assets in response to the economic climate. With these transactions, rational resource allocations and corresponding readjustments in industrial structure can thus be achieved.

We should note that, since China's commodity economy is not yet developed, the formation and development of a long-term capital market will take a period of time. In particular under the situation that the contradiction between the social aggregate demand and supply has not been alleviated, the establishment and opening of the long-term capital market should be orderly conducted under macroeconomic control and management.

Fourth, the methods of government management should be changed, and a macroeconomic investment regulatory and control system centering on indirect management should be established.

When the government functions are decomposed, the government investment management methods should also be changed; and the method of direct management should be transformed into indirect management. Under the method of indirect management, the government will no longer control investment and construction projects, and its regulation on investments will only be an administrative management power. The government investment management functions determined by this power will mainly include: drawing up long- and medium-term investment plans and development strategy; formulating related policies, laws and regulations, and standards, and supervising and inspecting the situation of enforcement of them; issuing economic information, using economic levers and giving guidance through typical examples; registering construction projects on an item-by-item basis; evaluating and approving various legal entities (construction units, units responsible for carrying out construction work for investment projects, project design units, and so on); handling notarization and arbitration matters; and so on. Under such a situation, corresponding changes in the following areas of government management should be carried out.

1. The scope of government regulation and control should be expanded. The management scope will not only include state investments but should also include the fixed asset investments in the whole society. Therefore, the planning concepts and the planning methods should be renovated, and the nature and functions of the planning departments should also be reformed. Currently, there exist diversified economic sectors, whole-people ownership economy, collective-ownership economy, individual economy, private management economy, and various forms of joint economy in China. Moreover, the amount of investments that are not included in the budget increased rapidly, and has exceeded the amount of investment included in the budget; and the proportion of state investment in the fixed asset investment in the whole society decreased from about 90 percent to one-third. Under such a new situation, the scope of planned management should cover the whole society; and the plans should be policy-oriented guidance plans. The focus of planned management should be on formulating industrial policies; and the realization of these policies should be promoted through the use of various economic levers in a comprehensive manner. Investment plans should be medium- and long-term plans; and these plans are mainly for determining the aggregate investment scale, the investment orientation, the structure of investment, the distribution of productive forces, and key construction in the plan period. Therefore, planning commissions at various levels should become comprehensive departments in reality as well as in name. They should be held responsible for achieving and maintaining a comprehensive

balance of the entire society, implementing macroeconomic regulations, and carrying out the functions of being economic advisory departments; and they should also combine formulation and implementation of plans, and the use of economic levers.

2. A system of investment decisionmaking and investment information management should be established. Since the objects on which the government will implement economic regulatory policies are changed from enterprises to the market, economic activities are no longer as clearly shown as that under the traditional system that enterprise activities are stipulated by mandatory orders. Under such circumstances, whether the government can comprehensively use various economic means to realize indirect management of the scale, structure, and distribution of investment of the entire society, to a large extent, depends on its thorough understanding of the investment trend of the whole society and its capability to assess the market situation. The latter is an indispensable aspect contributing to the new macroeconomic regulatory and control system. Therefore, the collection and use of various investment information are far more important and complicated than the past periods.

The use of modern computer technology and the results of the study of economic theories in establishing the system of investment decisionmaking and investment information management in China will be an urgent task of the government to realize the changes in government management functions and to raise work efficiency. The so-called investment decisionmaking and investment information management system means a complete computer programming system: collection of information—analyzing them—policy study—program proposal—trace for results of the policies. Speaking in visible terms, this system is similar to a production line taking raw investment data as inputs and producing policies and plans as final products; and it will serve directly the decisionmaking departments.

3. Activities ranging from construction, implementation of construction work, supplying of materials, forming complete equipment, to project consultation, and so on should regard enterprises as the main bodies, and should take the market as the link. Moreover, they should be launched around construction projects; and they are within the normal business scope of enterprises. Therefore, the focus of government's management of the course of project implementation should be changed from seeking coordination with the organizations responsible for the construction of the projects to market management related to the construction of the projects; and the above-mentioned activities should be brought under the supervision and control of laws and regulations. In this aspect, the functions of the government can be summarized into:

(1) Formulating and promulgating related policies, and laws and regulations;

(2) Formulating and promulgating state construction standards, and quality standards (norms, quotas) related to the designs and implementation of projects; and supervising the quality of construction products;

(3) Supervising the implementation of the tender system and the fulfillment of various types of contracts, and being in charge of economic arbitration;

(4) Evaluating and assessing, and granting recognition to, the qualifications of the enterprises responsible for designing and implementing construction projects and so on; and

(5) Protecting natural resources and the ecological situation, implementing government plans, and checking and issuing permits for construction units to carry out project construction work.

Shake Off the Temptation of 'Perfection'

40050207e Beijing HONGQI [RED FLAG] in Chinese No 6, 16 Mar 88 p 17

[Article by Chen Pinghua [7115 1627 5478]; excerpted from QUNZHONG No 2, 1988]

[Text] "Perfection" is a very tempting word, but then has the state of "perfection" ever been attained by anyone or in anything, in modern or ancient times, in China or elsewhere?

Oliver Goldsmith, an English writer, once wrote a story which went as follows: A young painter wanted to paint something which everybody would like. In order to achieve "unblemished perfection," he took his finished work to the market, put a brush next to the painting and invited patrons to point out the places that needed improvement. That evening, he found his painting smeared by marks of censure. He felt really disappointed. The following day, he suddenly had an idea. He reproduced a copy of the painting which he exhibited the day before, took it to the market and, this time, invited patrons to mark out the places they thought were excellent. When he went to fetch his painting afterward, he found marks of praise scribbled all over. All sorts of feelings welled up in his mind.

This story tells us that we should never seek "perfection." There is no such thing as "perfection" in this world, only beauty.

If we do not want anything unless it is "perfect" and would not do anything unless we can do it "with perfection," we are binding our own hands and feet. During the American Civil War, President Lincoln appointed General Grant commander-in-chief. Some people told him that Grant had a weakness for alcohol, and Lincoln only said: "If only I knew his favorite brand, I would send one or two barrels to the other generals." Lincoln no doubt knew the danger of drinking too much, but among all the generals in the Union camp, Grant was the only one who

was good at devising strategies and directing combat and could lead the troops to victory. The appointment of Grant marked a turning point in the Civil War.

Every person or thing is a complex body of the "beautiful" and the "not so beautiful." Sometimes it is the beautiful that is more dominant; sometimes it is the not so beautiful that is more dominant. Very often the beautiful evolves from things that are at first sight not so beautiful. This requires that we must develop a dynamic sense of appreciation and be able to see tomorrow's "white swan" in today's "ugly duckling."

Newborn things are usually not so beautiful at the beginning. As Francis Bacon once said, "The infants of all living creatures are not good looking at first." Thus, newborn things are unlikely to have much support at the beginning. Practice tells us that some of the policy decisions which have produced good results were made on the basis of "dissenting" rather than "completely unanimous" views. Mr Yoshida, manager of the Japan's YKK Corp, which has become world-renowned in the manufacture of zippers, once said: "I do not wait until everybody agrees with me before doing something. A program endorsed by everyone cannot have much drive, because by the time everyone agrees to it, this program would become outdated." Some management experts drew their conclusion on this basis and said: If a program for reform has the support of 40 percent of the people, it should be implemented right away. By the time it has the support of 60 percent of the people, it would have been too late.

Perfection implies the end, whereas imperfection implies development. People who aspire for innovation should not feel disappointed because of imperfections, for therein lies your course of exertion, your opportunity to create something new.

Strategic Policy for the Reform of the Political Structure in Economically Underdeveloped Areas as Viewed From Shaanxi

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[Article by the Political Structure Reform Study Group of the Shaanxi Provincial CPC Committee Propaganda Department]

[Text] A strategic policy for guiding reform of the political structure must proceed from reality and suit local conditions. As Shaanxi is marked by some typical features of China's western areas, it is, in terms of theory and practices, highly significant for us to study and understand the situation of the province in order to determine the strategic approach of thinking and its policy for reforming the political structure in economically underdeveloped areas in western China.

A Revised Understanding About the Situation of Shaanxi Province

This piece of ancient yellow land of Shaanxi in western China once gave birth to the splendid Banbo civilization, Western Zhou Dynasty civilization, Qin-Han Dynasty civilization and Sui-Tang Dynasty civilization. After liberation, the province made remarkable achievements in socialist construction. Its overall economic and cultural strength ranks top in western China. Judging from the development of social productive forces, however, it stays at a rather low level at China's preliminary stage of socialism.

Proceeding from the productive force, the province's major per capita economic indexes are below China's mean value. In 1986, the productivity of the whole staff of enterprises owned by the whole people was 11,968 yuan/man-year. Not only was the figure well below the developed provinces and cities in eastern China but also below national mean value by 22.6 percent. Essentially, the rural economy was still the traditional natural or seminatural one. Its extent of commodity production was limited. A rural laborer was only capable to making a living for 1.7 people, a difference of about 100 percent when compared to the national mean value of 3 people per rural laborer. In 1985, 69 counties, or 75 percent of the counties in the province, were poverty-stricken. Many peasants still suffered from food shortage and did not have sufficient clothes to wear. The number of cities in the province was very small. Its extent of modernization was so poor that it showed a trend of declining strength. The province now has eight cities, or less than one-third of that of Shandong Province. Though Xian City has long been ranked the 10th largest city in China, its 1986 rank of gross industrial output value among China's cities dropped to 23d. Nicknamed "the strongest of the four fortresses," the central Shaanxi plain is marked by its geographical features. It is blocked by mountains on three sides so that it is not easily accessible. Its transport development is so backward that it mainly depends on the Longhai Railway for east-west transport.

Proceeding from the production relations and superstructure, Shaanxi has a deep-rooted thinking of small-scale agriculture. It tends to stick to the old practice in order to maintain the present situation, and despises commerce and rich people. This is backed by the prevailing practices of ranking by seniority and basing on relationship for promotion, which was a product of the feudal patriarchal clan system. Furthermore, the citizens are weak in the consciousness about the essence of power and in the political consciousness. In particular, its legal concept is weaker than other parts of China. Though there is the metropolitan culture in Xian, in which the density of intellectual resources is high, both the education background of the masses and the population quality are poor. According to the 1982 census statistics, the percentage of illiteracy or semi-illiteracy in the province's employed population was 29.44, which was higher

than the national mean value. Moreover, the economy of the province was "simple" and was different from other areas. In 1986, the output value of industries owned by the whole people accounted for 80.2 percent of the province's gross output value; whereas the national percentage was 68.2. The output value of industries owned by the collectives was 16.9 percent of the province's gross output value; whereas the national percentage was 28.1. Most of the enterprises were large and medium-sized ones (whose output value accounted for 58 percent; whereas that of the state only accounted for 44 percent). Furthermore, the province's modern industries were mainly invested by the central government, which were not extensively linked to the local economy. The provincial economy has long been excessively dependent on mandatory plans and control, so that it lacked the vitality for invigorating its commodity economy. These special conditions have determined that we should adopt in our reform the simple policy of opening up, which will inevitably bring about short-term sprees. For example, there was a situation in the past in the rural areas in which peasants acted unanimously in keeping plots on mountain slopes or in cutting trees. This cannot but prompt us to consider profoundly about the issue during our reforms.

The Strategic Policy for Reforming the Political Structure in Economically Underdeveloped Areas

The general direction of reforming the political structure is to expand the socialist democratic political mechanism, the realization of which must be linked to the socioeconomic and cultural development. Reform of the political structure in the developed areas may be smoothly conducted in the wake of economic development and economic reforms. However, there are no such conditions in the western areas. We therefore need a transitional stage at which the low level at the preliminary stage of socialism is to be replaced by a generally higher one. For this reason, in order to accomplish the historical task for reforming the political structure, we should systematically implement and promote the work by stages and in order of importance and urgency. In other words, in addition to implementing the required national basic policies, we must adopt special policies. In reforming the economic structure some years ago, the central government formulated some special policies for the western areas. Though some policies have not yet yielded any achievement, some have achieved remarkable results. Taking into consideration that the economic gap between China's eastern areas and its western areas will be further widened, we must further strengthen and perfect the adoption of special policies. Similarly, we should also let the western areas adopt some individual special policies for their reform of the political structure. Some people are worried that this practice will make Shaanxi and the western areas more backward. We hold that such worries are not necessary. On the contrary, if we disregard the local situation in these areas and improperly implement the same mode of reform of the

political structure as the eastern areas do despite its languid economic reforms, we shall never achieve our goals. This is the basic principle of our "dual policy."

The Strategic Policy for Reforming the Political Structure

According to the principle of dual policy, we hold that reform of the political structure in economically underdeveloped areas should focus on two levels in the political structure, namely provinces and key cities, and should take reform of the cadre system as a breakthrough point.

1. On the issue about reform of the administration at provincial level. In the wake of intensive socialist commodity economic development and reform of the economic structure, China's eastern areas are gradually forming an open network of economic regions that focus on major cities and rely on towns and townships. Breaking away from the original pattern of division of power between ministries and provinces, it has challenged the province-based traditional system. The emergence of special economic zones, as well as coastal open cities and regions, is not only economically significant but has also brought about new administrative importance which one cannot afford to ignore. The objective conditions of reform show that the decline of provincial authority in the developed areas is a tendency. In the western areas where the economy is underdeveloped, however, there are objective reasons for adopting the structure of provincial authority. Moreover, we should further strengthen the structure so that we may, through the provincial governments, strengthen our cultivation, development and guidance of commodity economic development in the backward areas. First, the central government should further decentralize its decisionmaking power to the provinces, and should expand their jurisdiction in terms of financial authority, legislation and administration. Second, we must reform the functions of provincial governments. Being a government exercising the administrative functions of the state, the provincial governments should strengthen their roles of coordination, provision of services, guidance and readjustment in accordance with the principle of developing commodity economy. Being an owner of the local state-owned economy, they exercise the right to distribute interests. We must expressly determine through legislation the provincial governments' financial rights of ownership of enterprises; and their power to support and supervise their state-owned economies and to distribute revenue to them by acting as an owner.

2. On the issue about reform of the political structure in key cities. The key cities in the eastern areas differ from those in the western areas in terms of density and size. Furthermore, they are different in economic strength, links to other parts of China and the structure and functions of urban political organizations. Both the economic strength and political authority of key cities in

eastern China are expanding. Following the implementation of reforms in cities with their independent plans, we can speed up the formation of a regional town and township network centering on major cities. This will inevitably promote the supervision of county administration by cities, and will develop the supervision of cities by cities. At present, some 73 percent of counties in Liaoning Province are subject to cities' supervision; whereas the percentage reaches 100 in Jiangsu Province. There are 32 cities in China, all located in the developed areas, subject to cities' supervision. In our reform of the political structure, we should switch the focus of reform of the functions of key cities in the western areas from supervising enterprises to supervising the development of market mechanism and the regional development strategy, so as to promote the formation of a new economic region which focuses on the local cities. This requires us to uphold the basic principle of expanding the decisionmaking power of enterprises in our separation of government administration from enterprise management. Moreover, we should strengthen the power of macroscopic and microscopic administrative guidance by the government. On the separation of party supervision from government administration, we must correct the tendency of strengthening the nature of administration in the work by party organizations. We must intensify the administrative authority of government over economic work. Moreover, we must strengthen the leadership by local party committees over the work concerning their development strategy, progress of reforms, democratic construction, selection of qualified personnel and modernization of their concepts. On reforming the local structures, we must rationalize the jurisdictional relations between provinces and cities. We should depend our development of major cities on provinces, and make them promote the development in counties, thereby encouraging the formation of a town and township network. At the same time, we should implement on a trial basis the development of counties led by medium-sized and small key cities.

3. On the issue concerning reform of the cadre system. In the long run, the need for qualified personnel is the most prominent issue in the economically underdeveloped areas. Therefore, in order to solve this problem, we must, in our reform of political structure in the economically underdeveloped areas, conduct reforms through democratic construction and strive to put an end to the present situation in the cultivation and selection of qualified personnel. Many nationwide famous and outstanding cadres and reformers, who are emerging one after another, in provinces in eastern China have become the qualified personnel needed by the central government. However, the underdeveloped productive forces and backward cultural thinking of the western areas are unfavorable to the cultivation of qualified personnel in the areas. At present, the transfer of cadres is on a limited scale. Local people are assigned the work of managing their local affairs, and are therefore heavily bound by local relationship. The commodity economy is underdeveloped in remote and poverty-stricken areas. In

addition, there are very few job opportunities offered. This often brings about scanty sources of employment and channels for profit-making. This situation tends to develop such phenomena as the thinking of totalitarianism and abuse of power, and encourage more qualified personnel to go elsewhere.

In order to put an end to this situation and to reform the cadre system in economically underdeveloped areas, we hold: First, on the one hand, we must, on the management authority of cadres, decentralize in a corresponding way the decisionmaking power of cadres so that cadres in provinces, cities and counties will have their proper management authority. On the other, the provincial departments in charge of cadres' affairs must, in the light of the situation in which some qualified personnel are needed and some are not given any jobs, maintain the central power of supervising, transferring, appointing and dismissing cadres in the province. The focal point of reform should be on the environment, and on the creation of conditions, for the development of qualified personnel. We must uphold the practice of promoting lateral transfer of cadres and put an end to the strongly bound structure of cadres, which relies heavily on relationship.

Second, on the selection system of cadres, it would be better if we implement both the appointment system and the election system because of the unhealthy development of democratic mechanism in the economically underdeveloped areas. Furthermore, we should strive to perfect the election system. We should overcome the obstacle concerning the poor environment for cultivating qualified personnel and the thinking of patriarchal clan system, which is unfavorable to the selection of qualified personnel. We should prevent from happening the abnormal phenomenon in which personnel with poor qualifications elect personnel with good ones. The appointment system should also base itself on a democratic legal system and should follow the necessary legal procedures. We should also adopt more measures for eliminating the influences of relationship on appointment, and for undertaking assessment and supervision through open channels.

Third, on the promotion of cadres, we must emphasize on local cadres. We should also break through the boundaries among regions and trades, and recruit personnel with good skills of leadership from all parts of China and all sectors in society. For instance, we may transfer cadres from some large enterprises to prefectures and counties to manage economic affairs, and from universities and colleges to prefectures and counties to manage science and technology affairs. We may also transfer peasant-entrepreneurs to state-owned enterprises to show their talent, and recruit some comrades from China's reformers to undertake contracts in Shaanxi. We may also recruit several "foreign factory managers" from abroad.

History has explicitly shown that in the development of human society, the development of each region, nation and country always takes place in order and is uneven. Moreover, there are numerous examples that the advanced ones became the backward ones, and the backward ones developed into advanced ones. It is an undeniable fact that western China is a backward area. But this can be changed. If we find the way out by acting in the spirit of seeking truth from facts, there is a high hope that we shall be able to develop the vast territory in northwestern China.

Mao Zedong and the Beginning of New China—A Study of Mao Zedong's Works Published Since the Founding of the PRC—Part I
HK220213 Beijing HONGQI [RED FLAG] in Chinese No 6, 16 Mar 88 pp 21-30

[Article by Bian Yanjun [6708 1750 6511], Gong Yuzhi [7895 5148 0037], Wang Yuyao [3076 5940 1031], and Feng Hui [7458 5610]]

[Text] A study of Mao Zedong's works published since the founding of the PRC will be of great significance to our party cadres and theoretical workers to sum up the historical experience and lessons of the 27 years after the founding of the PRC and to deepen their understanding of the party's line and theory of building socialism with Chinese characteristics set forth since the 3d Plenary Session of the 11th CPC Central Committee.

Old China was a semicolonial and semifeudal big country in the East with peasants accounting for the majority of the population. It was a new question in the development of Marxism for the communists to exercise leadership over the people's revolution and seize victory in such a country. There was no ready solution. The Chinese communists made arduous explorations and traversed a tortuous path. On the basis of summing up historical experience of both success and failure, the CPC leading collective with Mao Zedong as its outstanding representative eventually integrated Marxism with the concrete practice of Chinese revolution, and found the road and set forth the theory for Chinese revolution. The victory of the people's revolution and the founding of the People's Republic have proved the truthfulness of Mao Zedong Thought, Marxism and its creation in China.

Following the founding of the PRC, it was another new question in the development of Marxism for the communists to lead the people in building socialism from the basis of the backward economy and culture left down from old China. In this regard there was also no ready solution. The Chinese communists made arduous explorations again. People expected that detours could be avoided in construction compared with the tortuous road in revolution. Facts proved that the detours could not be avoided. Under the leadership of Mao Zedong, our party achieved great victories on the socialist road and also suffered setbacks in the 27 years after the

founding of the PRC. On the basis of summing up the experience of both success and failure since the 3d Plenary Session of the 11th CPC Central Committee, the CPC leading collective with Deng Xiaoping as its outstanding representative restored and developed the ideological line of seeking truth from facts, the quintessence of Mao Zedong Thought, integrated Marxism with the concrete practice of China's construction through setting things to right and overall reform, found the road of building socialism with Chinese characteristics, and set forth the theory of building socialism with Chinese characteristics. The historical successes achieved over the past 9 years have also proved the truthfulness of this theory.

However, we still lack practice and our line and theory have yet to be matured. They should undergo numerous tests and be constantly enriched with the development of practice. To profoundly understand and adhere to the development of the line since the 3d Plenary Session of the 11th CPC Central Committee, we should face the reality and conduct a study of new conditions, experience, and problems; and also study history, particularly the part since the founding of the PRC, and sum up experience and lessons. Without any knowledge of history, it will be difficult to understand reality. Moreover, our understanding of reality will lack historical depth. Both the successful experience and lessons drawn from setbacks are the most valuable ideological wealth. We will achieve nothing by observing only one side of a matter. Only by observing both successes and setbacks, right and wrong and their mutual infiltration and transformation can we acquire an accurate understanding of history and deepen our understanding of history through comparison.

We plan to make a study of and introduce Mao Zedong's works (including his articles, directives, written instructions and comments, outline of speeches, letters, poems, notes made on documents, records of speeches and talks examined and approved by himself, and other manuscripts examined, approved, and issued with his name) published after the founding of the PRC in chronological sequence. Recently we made a study of Mao Zedong's works covering the period from September 1949 to December 1950. Of these, over 500 pieces had rich contents and 159 were never issued in public. In addition, 57 were included in the "Selected Military Works of Mao Zedong" (for inner circulation) and the other 300 were never issued in public. The records of speeches and talks preserved during this period were limited. The main contents are covered in the published works. These works include Mao Zedong's participation in major domestic and international political activities in his capacity as the chief leader of the party and state, the problems pondered, and the policies and theoretical viewpoints which took shape during the 15 months just after the founding of new China. The works also historically recorded the brilliant course in which the CPC led the Chinese people in liberating the mainland, restoring

the national economy, carrying out agrarian reform, strengthening the building of the state organs, and joining the war to resist U.S. aggression and assist Korea.

I. Historical Documents Concerning the Founding of the PRC

The founding of the PRC underwent ample preparations ideologically and organizationally. Regarding preparations made for the program for the founding of the PRC, the Second Plenary Session of the Seventh CPC Central Committee and Mao Zedong's report delivered at the session sketched a clear blueprint for the birth of new China. In his "On the People's Democratic Dictatorship" issued on 1 July, Mao Zedong theoretically expounded the political program for new China. Although these were documents issued prior to the founding of the PRC, we must know them very well so as to acquire an overall understanding of Mao Zedong's works and central documents published after the founding of the PRC.

The First CPPCC was the grand meeting for the founding of the PRC. Mao Zedong's opening speech at the conference, the declaration he drafted for the conference, the "Common Program" which served as the provisional constitution adopted by the conference, and the announcement of the Central People's Government read by Mao Zedong at the Tiananmen rostrum founding ceremony were all documents concerning the founding of the PRC.

"The Chinese people has stood up." This statement was the solemn declaration of the founding of the PRC. It embodied the historical achievements of the Chinese people's revolutionary struggles over the century or so and vividly expressed the national confidence and historical mission of the Chinese people. The public generally presumed that Mao Zedong made this statement on behalf of the Chinese people at the Tiananmen founding ceremony. In fact, the statement appeared in the opening speech at the CPPCC rather than in the government announcement made at the Tiananmen rostrum. The "Common Program" was the program for the building of a new democratic state. It was based on Mao Zedong's theory of China's new democratic revolution and construction, particularly the report to the Second Plenary Session of the Seventh CPC Central Committee and "On the People's Democratic Dictatorship." Entrusted by the CPC Central Committee, Zhou Enlai took charge of the drafting work. Mao Zedong went over the manuscripts many times and also made alterations and some comments, showing how the "Common Program" was drafted. As a matter of fact, the title "Common Program" was also given by Mao Zedong.

The Third Plenary Session of the Seventh CPC Central Committee held in June 1950 was the most important meeting of the party just after the founding of the PRC. In his report "Fight for a Fundamental Turn for the

Better in the Nation's Financial and Economic Situation" and the speech "Do Not Hit Out in All Directions" made at the session, Mao Zedong expounded the party's basic principles, policies, and specific program of action for this period. These documents are the key to our understanding and study of the history of the initial stage of the founding of the PRC. At that time Mao Zedong was in charge on the first line. He drafted large numbers of telegrams specifically guiding the work in all aspects. Only by grasping the key link can everything fall into place and can we acquire an overall understanding of the works written during that period.

II. The Strategic Shift of the Party's Focus From Military to Economic Work

When new China was established, the military tasks were basically accomplished viewed from the main areas throughout the country. However, the Chinese people had to carry out the revolution through to the end as the vast territory in south and southwest China was still occupied by the remnant forces of the KMT government. Regarding the areas awaiting liberation, the main task was to continue to advance. During this period Mao Zedong wrote large numbers of telegrams directing the army to advance. As the enemy's collapse was a foregone conclusion, Mao Zedong laid down the operational principle of "encircling and outflanking at a distance" which meant disregarding the enemy's temporary deployment, going beyond the enemy, occupying its rear, and blocking its retreat so as to totally wipe out the KMT remnants in mainland China. Under the guidance of this principle, the PLA won the victories of the Hengyang-Baoqing campaign and Guangxi campaign which totally annihilated the Bai Chongxi group army and also won the Guiyang, Chongqing, and Chengdu campaigns which thoroughly wiped out the Hu Zongnan and Song Xilian group armies. When the end of the liberation war as a whole was within sight, Mao Zedong noted the failure of a certain PLA unit in capturing the Jinmen islands in October 1949 and called on the whole army to learn a lesson and overcome impetuosity and the tendency to take the enemy lightly. Under the guidance of his operational principle of "taking action with ample preparations and assurance," the PLA won the victory of the Hainan battle. Following the military victories sweeping across the mainland, we liberated the vast area covering Yunnan, Sichuan, and Xikang by peaceful means. By the end of June 1950 a total of 1.3 million enemy troops were eliminated, thus the liberation of the whole country, except Xizang, was accomplished.

Following the fulfillment of the military tasks, the economic tasks of restoring and developing production became the party's central tasks. Mao Zedong pointed out at the Second Plenary Session of the Seventh CPC Central Committee: Very soon we shall be victorious throughout the country. From now on the focus of the party's work will shift from the rural areas to cities. "From the very day we take over a city, we should focus our attention on restoration and development of the

city's production." All work in the city should be "focused on and serve the central task of production and construction." At the First CPPCC, Mao Zedong again pointed out: "We are already confronted with the task of nationwide economic construction." With the liberation of central and south China, he pointed out in a telegram sent to Lin Biao on 18 December 1949: "The focus of work of the six provinces in central and south China has been shifted from military to economic work and agrarian reform." In a telegram sent to Rao Shushi on 20 May 1950, he said: "The responsible comrades of various central bureaus should personally take a hand in financial and economic work, the central bureau meetings should frequently discuss financial and economic work, and they should not regard it merely as the responsibility of the financial and economic organs and thus slacken their efforts in this regard; this principle is also applicable to the party committees of the subbureaus, municipalities, provinces, and autonomous regions." He continued: "Financial and economic work has been discussed at almost all the meetings of the Political Bureau of the CPC Central Committee." The fight for a fundamental turn for the better in the nation's financial and economic situation defined as the central task of the whole party at the Third Plenary Session of the Seventh CPC Central Committee was of great significance. Mao Zedong's works written during this period were largely related to economic work, including unified finance and economy, readjustment of industry and commerce, overall arrangements for foreign trade, employment, bringing Huaihe under control, providing disaster relief, and the army's participation in production and construction. He put forward a series of policies and measures to tide over the temporary difficulties and ensure the recovery of the national economy. All this apparently reflected the strategic change of the party's work.

Viewed from the above description, the focus of the party's work was shifted to economic construction not after the basic completion of socialist transformation. During the initial period after the founding of the PRC, with the completion of the military tasks, the focus of the party's work started to shift to the economic field. Naturally, this shift underwent a process which was divided into two stages. Although the focus was shifted to economic work prior to the basic completion of socialist transformation, economic construction and social transformation developed simultaneously. The conditions for switching to the new stage of all-round socialist construction were ripe only after the basic completion of socialist transformation.

III. The Principal Social Contradiction and Strategic Tactics and Policies During the Initial Period of PRC Founding

During the initial period of the founding of new China, we were confronted with extremely complicated social conditions and various social contradictions were mingled with each other. On the one hand, economic recovery and development was the main task; and on the other

hand, the arduous tasks of democratic reform and socialist transformation were under way. In addition, there were also complicated class struggles. Hence, it was an extremely important question to grasp the principal social contradiction and its changes during the initial period of the founding of new China.

In his report to the Second Plenary Session of the Seventh CPC Central Committee in March 1949, Mao Zedong pointed out: "After the nationwide victory of the Chinese revolution and the solution of the land problem, two basic contradictions will still exist in China. The first is internal, that is, the contradiction between the working class and the bourgeoisie. The second is external, that is, the contradiction between China and the imperialist countries." This analysis gave us the basic guidance to observe the principal contradiction and its changes from among various social contradictions during the initial period of the founding of new China.

As everyone knows, after seizing political power and exercising leadership over economic life, the contradiction between the working class and the bourgeoisie will gradually become prominent. It is very important to properly judge and deal with such a contradiction. The following tendency may easily occur: Our attention may be attracted by the prominent contradiction. Instead of looking at the problem from the overall situation of the complicated and mingled class relationship, we may regard this contradiction as the principal contradiction, regard fighting against the bourgeoisie as the main task, and impatiently try to eliminate the capitalist economy. When the tendency cropped up, Mao Zedong wrote some important instructions in the text of a speech made at the industrial and commercial group meeting of the First National United Front Work Conference in April 1950. He emphatically pointed out: "The targets of our current struggle are imperialism and feudalism and their running dogs, the KMT reactionary remnants, rather than the national bourgeoisie. We should struggle against the national bourgeoisie on the one hand and unite with them on the other. The policy of unity as well as struggle should be adopted to unite with the national bourgeoisie and jointly develop the national economy." We should "restrict and reject the industry and commerce disadvantageous to the national economy and the people's livelihood, namely, speculative commerce and the industry and commerce related to luxuries and superstitious goods, rather than the proper industry and commerce that are advantageous to the national economy and the people's livelihood. We should give them a hand when they have difficulties so as to ensure their development." He also urged the state-owned commerce not to monopolize everything. Besides salt, the state-owned commerce should only exercise control over a certain amount of the major commodities (grain, cloth, edible oil, and coal) and its range of business should be divided with the private sector.

While correcting the tendency to eagerly reject the private capitalist enterprises and carefully readjusting the industry and commerce, Mao Zedong sent a telegram in

reply to Chen Yi on 16 April 1950 in which he affirmed the correct method adopted by Shanghai in dealing with taxation and unemployment after soliciting opinions from various respects. He also put forward an important idea: "As we are now at the critical period of transformation, we should strive to appropriately effect the transformation. Do not destroy or make less destruction of the things that should not be destroyed. So long as you can assure this point, you will gain the initiative and be capable of removing the obstacles."

At the Third Plenary Session of the Seventh CPC Central Committee, Mao Zedong further laid down the clear-cut guiding ideology of "don't hit out in all directions" which meant to grasp the principal contradiction from among the complicated social contradictions, solve the main task, and isolate and attack the chief enemy. He emphatically pointed out: "It is undesirable to hit out in all directions and cause nationwide tension. We must definitely not make too many enemies, we must make concessions and relax the tension a little in some quarters and concentrate our attack in one direction." For this reason, he called on us to make proper readjustments in industry and agriculture, reduce rent and interest, suppress the bandits and local tyrants, carry out agrarian reform, and earnestly and painstakingly make a success of the united front work so that the workers, peasants, and small handicraftsmen would support us. It was also necessary to unite with the national bourgeoisie, democratic parties, democratic personages, intellectuals, and minority nationalities so as to isolate imperialism, the remnant KMT reactionary forces, and the landlord class. This was the penetrating analysis of the principal social contradiction during the initial period of the founding of the PRC and the important instruction on strategic principles and policies.

While revising the propaganda outline of the general line during the transition period in 1953, Mao Zedong reviewed the history of Chinese revolution during the years of the founding of the PRC and wrote the following: "The change of a revolutionary nature and the change indicating the end of the new democratic revolution and the beginning of the socialist revolution refer to the change of political power, the doom of the KMT reactionary regime, and the founding of the PRC. It does not mean that the great task of socialist transformation can begin immediately in all fields of the country after the founding of the People's Republic. At that time we will still have to resolve the contradiction between feudalism and democratism, namely, between the landlords and peasants in the vast rural areas. Then the principal contradiction in the rural areas will be one between feudalism and democratism rather than that between capitalism and socialism. Hence, agrarian reform will be carried out in the rural areas for 2 to 3 years. On the one hand, we will carry out democratic agrarian reform in the rural areas; and on the other hand, we will immediately take over the bureaucratic capitalist enterprises in urban areas and turn them into socialist enterprises,

establish socialist state banks, and set up socialist state-run and cooperatively-run commerce nationwide. Moreover, we have adopted the measures of state capitalism in private capitalist enterprises over the past few years. All this indicates the complex nature of China's transition period during the early years."

IV. Agrarian Reform in New Liberated Areas

Following the founding of new China, the agrarian reform carried out in the new liberated areas which had a population of 310 million was a considerable task left over from the democratic revolution and the largest scale social reform movement in Chinese history. Mao Zedong regarded the completion of agrarian reform as one of the three essential conditions for effecting a fundamental turn for the better in the nation's financial and economic situation during the early period.

The political situation and social conditions of agrarian reform after the founding of the PRC were markedly different from those prior to the founding: The people's revolutionary war basically came to an end in mainland China, the Central People's Government was established, certain classes which were against the people's revolution and agrarian reform in the past changed their political attitude, and the fundamental task of the Chinese people was to carry out nationwide economic construction and restore and develop the social economy. To meet this basic situation and fundamental task, the agrarian reform of the new liberated areas should be carried out in a step-by-step manner. Moreover, the policies in this regard should also be readjusted somewhat.

The policies to be readjusted referred to changing the past practice of taking over the surplus land and property of the rich peasants, protecting the property and land of rich peasants tilled by themselves or with hired laborers, and keeping the small amount of land leased by rich peasants unchanged. At a Political Bureau meeting attended by responsible persons of the Eastern and Central Bureaus as early as in November 1949, Mao Zedong raised the question of temporarily maintaining the land and property of the rich peasants. During his visit to the Soviet Union in February 1950, he discussed the issue with Stalin. In a telegram to Zhou Enlai and Liu Shaoqi on 17 February, he relayed Stalin's proposal of distributing land of landlords and rich peasants by two stages and not taking over land and property of the rich peasants for the time being. In a telegram to Deng Zihui and responsible persons of the central bureaus and subbureaus on 12 March after his return from the Soviet Union, Mao Zedong solicited their opinions on the significance of preserving the rich peasant economy. He explained the reasons for doing so: First, we can appropriately protect the middle peasants, totally isolate the landlords, and prevent the leftist deviations in agrarian reform; second, we can mitigate social turbulence caused by agrarian reform and enable the party and government

to have the political initiative; and third, we can maintain the national bourgeoisie and further consolidate the united front with them. Moreover, for the sake of reducing the scope of target in agrarian reform while determining class status, the central authorities also proposed that they be determined small land lessor as they leased only a small amount of land (not exceeding 200 percent of the per capita possession of land in the locality) because they were engaged in other businesses or they had a shortage of labor. Following the discussions in which different views were expressed, the Third Plenary Session of the Seventh CPC Central Committee laid down the policy of maintaining the rich peasant economy in agrarian reform and also stipulated that the provinces had the right to deal with the small amount of land leased by the rich peasants in light of the actual circumstances. These policies were defined in the form of law in the "Agrarian Reform Law of the PRC" adopted by the Central People's Government Committee's Eighth Meeting on 28 June 1950.

Liu Shaoqi's "Report on Agrarian Reform" delivered at the Second Session of the First CPPCC on 14 June 1950 on behalf of the CPC Central Committee was the programmatic document systematically expounding the great significance, fundamental purpose, historical experience, and policies of agrarian reform at that time. In the course of the drafting, Mao Zedong went over the manuscripts over and over again and made some important alterations. He also wrote letters to Liu Shaoqi, deliberating over the important issues in the report. In his summary speech to the Third Plenary Session of the Seventh CPC Central Committee, Mao Zedong expressed his views involving the dispute over the erroneous estimate of the "leftist" mistake in agrarian reform during the war of liberation and the reason for drawing such an erroneous estimate. The main idea was indicated in a passage in Liu Shaoqi's report revised by Mao Zedong (see "Selected Letters of Mao Zedong," Footnote 2, p 377).

The new policy toward the rich peasants was undoubtedly advantageous to the progress of agrarian reform following the founding of the PRC. The changes in the rich peasant economy in the new liberated areas also constituted a historical question which deserved study. Liao Luyan wrote an article entitled "Great Victory of Agrarian Reform Movement Over the Past 3 Years" to commemorate the third anniversary of the founding of the PRC in which he said that land maintained by the rich peasants in the new liberated areas after agrarian reform was usually twice the average possessed by local peasants. On the whole, however, China's rich peasant economy was underdeveloped and it accounted for a very small proportion in the rural economy. It had a feudal nature and only a small portion of land was tilled by hired laborers. The agrarian reform in the old liberated areas eliminated the rich peasants, while the agrarian reform in the new liberated areas took over all or part of the large amount of land leased by the rich peasants in light of the new agrarian reform law. In addition, some

localities took over part or whole of the small amount of land leased by the rich peasants. As a result, the rich peasant economy preserved accounted for a small portion and did not become a big problem in rural life and the agricultural cooperative movement.

V. The Building of Democratic Politics and Unity Between Nationalities

The building of new China's democratic politics which started from the CPPCC created a new situation of sincere cooperation between the CPC and various democratic parties, people's organizations, and nonparty personages in consulting important state matters. The new China regime was the people's democratic political power characterized by the united front of multi-party cooperation under the leadership of the CPC. When the Central People's Government was established, a considerable number of nonparty personages assumed leadership posts in the central level government organs. In the telegrams and letters sent to local leaders including Ye Jianying, Chen Yi, and Peng Dehuai from October 1949, Mao Zedong proposed setting up local organs of political power with CPC members accounting for the majority which also united the democratic personages of all fields. Mao Zedong paid close attention to the role of democratic personages in government work. He personally discussed major state affairs with them and often gave them documents of the CPC Central Committee and reports of local governments for perusal so that they could have an intimate understanding of the situation. Regarding the suggestions they made and the problems pointed out, he immediately instructed the departments concerned to earnestly conduct investigations and studies, and handle the problems and give answers with responsibility. When he received a letter from Huang Yanpei in May 1950 complaining about the mistake made by Chuansha and Fengxian Counties in south Jiangsu in collecting grain taxes, he sent telegrams twice to Chen Pixian, party secretary of south Jiangsu area, asking him to send special persons or personally investigate the matter. In the telegrams, Mao urged Chen to "say what really happened in light of the spirit of seeking truth from facts, find out the truth through investigation, and make an analysis of the information collected."

Mao Zedong regarded the local meetings of people's representatives of various circles as the important link to promote the building of democratic politics. To this end, he sent several telegrams. He pointed out: "This is a great event. If the one thousand and several hundred counties all over the country can do a good job in holding meetings of people's representatives, it will be extremely important for the party to establish close ties with millions upon millions of people and for the cadres within and outside the party to receive education." Under his guidance, the localities held meetings of people's representatives one after another which played an important role in the building of democratic politics and which laid the conditions for the people's congresses at various levels held later.

As China is a multi-nationality state, it is extremely important to correctly handle the question of nationalities. In a telegram to Peng Dehuai and the Northwest Bureau on 14 November 1949, Mao Zedong pointed out that the policy of national equality and national unity should be upheld in all work in the minority nationality areas. We should encourage large numbers of people from among the minority nationalities who can cooperate with the Communist Party to join our government work. He emphatically pointed out that "without large numbers of communist cadres of minority nationality origin, it would be impossible to thoroughly solve the question of nationalities and totally isolate the national reactionaries." This telegram was of far-reaching significance to minority nationality work. To direct the peaceful liberation of the two biggest minority nationality regions including Xinjiang and Tibet, Mao Zedong drafted a number of telegrams providing the minority nationality areas with the correct guiding ideology to properly deal with the complicated contradictions and implement the party's nationality policies. While garrisoning troops in the minority nationality areas, Mao Zedong repeatedly emphasized, they should neither disturb the local people nor increase their burden. All military supplies including grain will be provided by the Central People's Government. In a telegram sent to Peng Dehuai and the Northwest Bureau on 23 October 1949, Mao Zedong said that the 3 million Uygurs constitute the main nationality in Xinjiang and "only by establishing fraternal relations between the PLA and the Uygur nationality (and other nationalities) can we build a people's democratic Xinjiang." While stressing that the PLA should establish close ties with the masses, Mao Zedong also took note of winning over and uniting with the top-level personages of the minority nationalities. While examining the 10-point conditions drafted by the Southwest Bureau to hold negotiations with the Tibetan authorities, Mao Zedong made a substantial revision in May 1950 on the eighth condition (the original was "the reform matters concerning Tibet shall be settled by consultative means adopted by the Tibetan people completely in accordance with their own will") and added "and Tibetan leaders" after the "Tibetan people."

VI. Foreign Policy and Foreign Trade

The principles Mao Zedong expounded in establishing diplomatic relations with other countries, the telegrams he drafted specifically guiding the talks involving establishment of diplomatic relations, and his speeches and telegrams concerning Sino-Soviet relations and other international issues made during his visit to the Soviet Union are the valuable documents for us to study China's foreign policy and relations. In the announcement of the Central People's Government read by Mao Zedong at the founding ceremony, he solemnly proclaimed to the whole world: "This government is the sole legitimate government representing the people of the PRC. It is willing to establish diplomatic relations with any foreign country which abides by the principles of

equality, mutual benefit, and mutual respect of territorial integrity." In view of the international environment and historical conditions at that time, China placed diplomatic relations with the Soviet Union and the people's democratic countries in the first place. Mao Zedong went abroad for the first time to visit the Soviet Union from December 1949 to February 1950. The telegrams and speeches he made during his stay in the Soviet Union indicated the policies pursued and the successes achieved by China in developing relations of cooperation with the socialist countries. Regarding diplomatic relations with the countries of different social systems, Mao Zedong explicitly pointed out two principles: First, these countries should sever diplomatic relations with the KMT government; and second, the establishment of diplomatic relations will be determined through negotiations. This appeared in his telegram sent on 19 December 1949 on establishing diplomatic relations with Burma.

Foreign trade is an important aspect of economic work and also a component part of diplomatic work. It plays an important role in restoring and developing the national economy and pursuing a peace diplomacy. In a telegram sent to the CPC Central Committee on 22 December 1949, Mao Zedong said: "While preparing agreements for trade with the Soviet Union, we should proceed from an overall point of view. While putting our trade with the Soviet Union in the first place, we should be prepared to do business with Poland, Czechoslovakia, Germany, Britain, and the United States." This indicated that it was not the party's consistent policy to close the country to the outside world. The economic blockade was imposed on us by others. Regarding the deviation in guiding ideology in opening up, it was a mistake made later.

VII. Culture and Education Work

While dedicating himself to the promotion of China's economic construction during the early years of the founding of the PRC, Mao Zedong also paid close attention to the building of culture and education undertakings. He stressed that culture and education work should assist and serve the central task. In a letter to Zhou Shizhao on 15 October 1949, he said that "we should get assistance from culture and education work to fulfill the tasks" of restoring the people's economy, accomplishing the reform of the agrarian system, and increasing the people's political awareness. At the Third Plenary Session of the Seventh CPC Central Committee, he set forth the task of "gradually and prudently reforming the old schools, educational undertakings, and social cultural undertakings and encouraging all patriotic intellectuals to serve the people." He was against the idea which stalled for time and was unwilling to carry out reform as well as the impetuosity which attempted to carry out reform by rude means. Mao Zedong proposed using the method of self-education and remolding to solve the ideological problems of intellectuals and help them gradually foster the viewpoint of serving the people

and the world outlook of dialectical and historical materialism. In August 1950 Mao Zedong wrote a letter in reply to Chen Jisheng who was engaged in the study of history of the minority nationalities. "Unless we apply Marxist method," Mao Zedong said, the study of Chinese history "will be fruitless and will not produce any good result." Whenever Mao discovered violation of the party's policies on culture, education, and intellectuals by state functionaries, he would sternly criticize them. When Mao Zedong was reading a report in July 1950 which said that the head of Beijing Agriculture University violated the party's policies on intellectuals and suppressed a professor who taught the theory of Morgan, he wrote written instructions twice urging relevant departments to investigate and properly handle the matter. Later the Ministry of Education and the Academy of Sciences sternly criticized the university head. Mao Zedong's thinking in this regard was the basis for the party to define the academic policy of letting a hundred schools of thought contend.

Mao Zedong also paid great attention to the overall development of moral, intellectual, and physical education in schools. When he read a report in June 1950 which said that the students' health was failing, he put forward the principle of "health first, study second" with foresight in a letter to Education Minister Ma Xulun. This instruction was of far-reaching influence to the healthy growth of our youngsters and to improving the physical quality of our nation.

To meet the needs of economic, cultural, and national defense building, it is necessary to upgrade the educational, scientific, and technological level of all army officers and men and to train large numbers of intellectuals who come from worker or peasant families. This is a task of strategic significance. In the name of chairman of the Central Military Commission, Mao Zedong issued a directive on education in the army on 1 August 1950, calling on the PLA to regard improving educational level as its primary task within a considerable period and to organize officers and men to take part in studies in primary and secondary schools and special classes. This directive was not implemented in full because the war to resist U.S. aggression and assist Korea broke out later. Nevertheless, it gave impetus to the army mass fervor to acquire an education.

VIII. The Policy Decisions on the War To Resist U.S. Aggression and Assist Korea, and the Victory of the Two Battles

The Korean war broke out in June 1950. Flaunting the banner of the United Nations, the U.S. Government openly declared armed intervention of Korea and dispatched troops to occupy China's territory Taiwan. Mao Zedong and the CPC Central Committee followed this sudden international event with interest, predicted the seriousness of the situation after the participation of the U.S. Army in the Korean war, and adopted prompt countermeasures. On 7 July 1950, Zhou Enlai presided

over a Central Military Commission meeting on national defense, which adopted a resolution on concentrating four armies and three artillery divisions in the northeast border by the end of July to form a northeast frontier force. Mao Zedong was in favor of doing so. Later Mao Zedong sent telegrams on several occasions, calling on the frontier force to be prepared against war and await orders to set off. The situation of the Korean war deteriorated abruptly following the landing of the U.S. troops at Inchon. On behalf of the Chinese Government Premier Zhou Enlai issued a statement on 30 September saying that the Chinese people will not tolerate U.S. aggression on its neighbor and through diplomatic channels warned the U.S. troops not to cross the 38th Parallel. Despite the protest and warnings of the Chinese Government, the U.S. imperialists brazenly crossed the 38th Parallel in early October 1950 and launched a large-scale offensive against North Korea, and at the same time sent aircraft to invade China's territory, seriously menacing China's security.

Under such a critical situation and with the request of the Democratic People's Republic of Korea and its prime minister, Kim Il-song, Mao Zedong and the CPC Central Committee resolutely decided to send the Chinese People's Volunteers to Korea to cooperate with the Korean People's Army in attacking the aggressors. In a telegram sent on 2 October, Mao Zedong said: "We have decided to send some troops under the name of volunteers to Korea to assist the Korean comrades and fight against the troops of the United States and its lackey I Sung Man. We hold that this move is necessary." In the telegram he also made a penetrating analysis and accurate estimate of the most unfavorable circumstances that may possibly crop up in the war, whether victory could be won with the participation of the Chinese People's Volunteers in the Korean war, and the impact produced on China's security and economic construction. In his capacity as chairman of the Chinese People's Revolutionary Military Commission, Mao Zedong issued an order on the official formation of the Chinese People's Volunteers on 8 October. He called on the volunteers to "march speedily to the Korean border and join the Korean comrades in fighting the aggressors and winning a glorious victory" and appointed Peng Dehuai commander and political commissar of the volunteers.

The Chinese People's Volunteers entered Korea on 19 October and successively won the first and second battles by the end of December, thus reversing the deteriorated situation of the Korean war. The main contents of the large numbers of telegrams sent by Mao Zedong directing the two battles included: First attack the weak enemies and then attack the strong ones, first attack the puppet troops and then attack the U.S. and British troops, and be sure to win the first battle; concentrate superior forces to break up the enemy forces into many pockets and wipe them out one by one; lure the enemy troops in deep so as to concentrate our forces and annihilate them; and foster the idea of fighting a long-term war and oppose the viewpoint of quick victory.

These telegrams were all included in "Selected Military Works of Mao Zedong" (for inner circulation).

Mao Zedong paid great attention to the relations between the Chinese People's Volunteers and the Korean People's Army, their unity, and the concerted efforts made in operation. In the order to the Chinese People's Volunteers, Mao Zedong repeatedly admonished: "You must show fraternal feelings and respect for the people, the People's Army, the democratic government, the Workers' Party (Communist Party), and other democratic parties of Korea as well as for Comrade Kim Il-song, the leader of the Korean people, and strictly observe military and political discipline." In the course of the operations, he continued to remind the volunteers of the important issue. In a telegram to Peng Dehuai on 26 December 1950 after the second battle, he emphasized the necessity of enhancing discipline, improving the relations between the Chinese and Korean comrades and between the army and the people (strictly enforcing the Three Main Rules of Discipline and the Eight Points for Attention), doing a good job of mass work (helping the victims with some of their financial difficulties), and stepping up political mobilization in the army.

When the volunteers joined Korea in the war, a nationwide mass drive to resist U.S. aggression and assist Korea was launched at home. Realizing the far-reaching significance of the mass drive, Mao Zedong pointed out: The anti-imperialist aggression front formed by the people of the whole country which is more consolidated than the past predicts that the Chinese people will eventually win in their sacred struggle against imperialist aggression. The drive aroused the patriotic enthusiasm of the Chinese people, destroyed some people's illusions about imperialism, and enhanced the determination and confidence of the people of the whole country in resisting the aggressors.

Apart from the above-mentioned main aspects, Mao Zedong's works from September 1949 to December 1950 also included other contents. Instead of enumerating them here, we would like to introduce some of his works on maintaining the fine work style of plain living and hard struggle. In a telegram in reply to the people of all walks of life in Yanan on 26 October 1949, he wished that "the revolutionary working personnel of the whole country will always maintain the style of plain living and hard struggle fostered by the working personnel in Yanan and the Shaanxi-Gansu-Ningxia border region over the past decade or so." When he was informed in September 1950 that Hunan was repairing his former residence in Shaoshan and building a highway from Changsha to Shaoshan, he immediately wrote a letter to Huang Kecheng and other responsible persons of the Hunan provincial party committee, urging them to stop the projects, "do not carry on with the construction or it may cause an adverse influence among the people." In May and October the same year, he expressed objection in a written instruction on the reports submitted by Shenyang and Beijing governments on erecting a bronze

statue of Mao Zedong. He said that "it would be satiric" to do so. The letters he wrote to his relatives and old friends also proved this idea from a certain aspect. He adhered to the principle even in regard to the job of his close relative Yang Kaizhi. He personally drafted a telegram to Wang Shoudao on 9 October 1949 which said: "Yang Kaizhi and others should not come to Beijing. Please give them some jobs in Hunan according to their capability. Do not promise any of their unreasonable requests." At the same time he also sent a telegram to Yang Kaizhi in the care of Wang Shoudao, exhorting him: "Accept whatever job assigned to you by the Hunan provincial party committee. Follow the rules and regulations and don't try to make things difficult for the government."

In a word, during the early years of the founding of new China, Mao Zedong attended to numerous state affairs every day and worked his heart out for the undertakings of the party and the people. Proceeding from China's actual reality, he applied the basic tenets and method of Marxism to creatively handle the different types of contradictions and laid down the correct principles and policies which enabled the newly born People's Republic to take the first step in history along the correct path.

The Analytical Framework of 'Das Kapital'—An Interpretation From the Angle of the Economic Movement Mechanism

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[Text] Over a long period, especially since the latter part of the 1970s, through the great efforts of many scholars, our country's economic circles have realized great achievements in research into "Das Kapital." Many monographs and articles have been published and some of these have been of a high standard. However, overall, our country's research into "Das Kapital" basically remains at a low level. Many researchers have put quite great efforts into notes and commentary or into meticulously studying terms and concepts. Many have also discussed some limited, detailed questions or related and summed up the main ideas of "Das Kapital." This has led to where quite a number of the works are low-level general reading material works very similar to each other and repeating what others have said. In the last few years, "Das Kapital" has suddenly changed from a "hot topic" to a "cold topic." On the one hand, this does indeed reflect a change in the center of interests on the part of our country's economic circles and as such is a normal phenomenon in scientific development, while at the same time and to a certain degree it accords with the great demands in studying socialist economic reality. On the other hand, it is certainly related to the following situation: In the past, research into "Das Kapital" was

often hampered by platitudes and repetitive mouthing of the conclusions of those who had gone before. It lacked innovativeness and a sense of the times and thus it lacked due appeal.

This article will attempt to change the angle of research into "Das Kapital" and will try, with the background of expanding economic knowledge and through a comparison with the major contemporary Western economic theory structures (this refers to the neoclassical synthesis of the major post-Keynesian economic schools), to "newly" explain the analytical framework of "Das Kapital" from the angle of the economic movement mechanism. It will further expound on the high degree of applicability of this framework in contemporary Western economic research and also on the future development orientation for economics which it signifies.

I

The major characteristics of the analytical framework of "Das Kapital," and also its greatest superiorities are the integration of microeconomic analysis and macroeconomic analysis, the dynamic method and the historical analysis method.

If we note that the new institutional schools in the United States take "Das Kapital" as a major ideological source (the reformism and social mediation of these schools should certainly not be adopted, but their affirmation and analysis of the real contradictions in capitalist society clearly have some rational components), pay attention to the sharp criticism, by the well-known Western economists Galbraith and Madam Robinson, of the practice by the major economic schools to split apart macroeconomic research and microeconomic research, note the decline of the influence of post-Keynesianism when the Western economies suffered from stagflation during the 1970s and note that criticism of traditional macroeconomic theory subsequent to this was to a large degree nothing more than microeconomic explanation of macroeconomic activity (Footnote 1) (G.R. Fei-wei-er [Fairwell?], "Contemporary Microeconomics and Issues in Welfare Economics," Macmillan Publishers, 1985; see Preface), and thereby was a return to the methodology which integrates macroeconomic and microeconomic analysis, then we have no reason not to engage in deeper exploration of the analytical framework of "Das Kapital."

We know that in the neoclassical synthesis system of the major post-Keynesian economic schools, the neoclassical microeconomic theory system is combined with the Keynesian macroeconomic system. However, the theoretical logic of each of these two systems conflicts with and negates that of the other. This is because, according to the neoclassical model of competition, under the regulation of pricing signals and the role of the law of supply and demand, the socioeconomic system can automatically move toward and maintain a situation of general equilibrium. In such a situation, according to

Walras' Law, excess demand in the economic system is zero. Using Keynes' terminology, this means that total supply is equal to total demand, and that there is a balance of total macroeconomic volumes. However, according to Keynes' macroeconomic model, under the influence of the three basic psychological factors of "progressive decrease in marginal consumption, flexible preferences and investors hopes for future income from assets," the social economic system will not always be able to automatically maintain an equivalence between total demand and total supply. Walras' equilibrium is a special case. When effective total demand is less than effective total supply, the government needs to utilize fiscal policy measures to encourage consumption and increased investment, in order to raise the level of total demand, to achieve full employment and to achieve a balance between total demand and total supply under full employment conditions. It is easy to see that Keynes' macroeconomic theory is not only a negation of Say's Law, but also a negation of the system of achieving equilibrium through competition of the whole tradition of neoclassical schools.

Today, as the post-Keynesianists are making great efforts to build the microeconomic base of their schools' macroeconomic theories, the supply-demand school of the neoclassical tradition is proceeding from a microeconomic theory which is clearly different from the logic of the Keynesian theory and is engaged in tit-for-tat criticism of the macroeconomic system of the Keynesian school. What then does this situation where the macroeconomic analysis and microeconomic analysis of the major Western economic schools will inevitably be combined after long separation tell us? Does it not clearly suggest the great appeal of the integral analytical method of Marx's "Das Kapital"?

In summary, as compared to the neoclassical economics with its static price formation and static resource deployment, the contents of the microeconomic analysis in Marx's "Das Kapital" are extensive and profound, and have both a deep sense of history and a very powerful sense of present reality. Marx's theoretical model not only includes an analysis of the internal organizational structure of capitalist enterprises, but also involves an examination of the microeconomic mechanisms of technological progress and the process of microeconomic accumulation. This means that Marx's microeconomic analysis and his macroeconomic analysis are indivisible and results in the theoretical system having a reality rather than a formalistic dynamic nature.

Below, let us turn to more specific discussion.

As is well known, the model of competition and the theory of firms (enterprises) of the neoclassical school, with the hypothesis of maximization of profits by producers, completely overlooks research into the internal organizational structure of enterprises, and overlooks research into the decisionmaking mechanisms and motivation mechanisms of capitalist enterprises. At the same

time, the static balance method means that they "abstractly" ignore the questions of technological progress and accumulation and investment at the enterprise level.

In marked contrast, when Marx analyzed the capitalist economic movement mechanism, from the beginning he took his incisive scalpel of theory to the direct production process of individual capital (that is, in the terminology of modern Western economics, firms or enterprises), and to the interior of capitalist enterprises.

According to Marx's discussion, the capitalist production process is a unity of a labor process and a process of increase in value. The system of ownership of the means of production by capitalists and the subordination of labor to capital leads to changes in the social production modes, resulting in two special phenomena appearing in the labor process: First, workers labor under the supervision of capitalists and their labor belongs to the capitalist; and second, the products are owned by the capitalist and do not belong to the workers who directly produced them. (Footnote 2) ("Das Kapital," Vol 1, People's Publishing House, 1975, pp 209-210) Capitalist production is, in essence, the production of surplus value and the absorption of surplus labor. Thus, "the production of surplus value or the making of profits is the absolute law of this mode of production." (Footnote 3) (Ibid., p 679) On the surface of capitalist economic movement, surplus value is changed into profits and thus it can be said that the aim of capitalist enterprises is to obtain the greatest degree of profits. In other words, the growth of profits and capital is the stimulus, motivation and sole aim of capitalist production. (Footnote 4) ("Das Kapital," Vol 3, pp 270, 288) Labor can only be employed as long as it brings profits to the capitalists. The production of products "does not stop when the satisfaction of demand requires that it cease, but rather when the production and reality of profits require that it ceases." (Footnote 5) (Ibid., p 288)

We can see that from the special ownership structure, decisionmaking structure and operational mechanism of capitalism, Marx deduced the microeconomic motivational mechanisms and enterprise goals under capitalism.

This microeconomic analytical framework of Marx means that changes in the ownership structure, decision-making structure and operational mechanism of enterprises will inevitably lead to changes in the motivational mechanisms and the activities of the enterprises. Undoubtedly, these changes are outside the field of vision of neoclassical microeconomics, and the neoclassical schools were unable and unwilling to study these changes and the specific economic results of the changes. However, since the 1960s, the well-known Western economists Williamson, Marris, and Leibenstein who are part of the institutional school in the broad sense, have through empirical research into the decisionmaking structures and motivation structures within capitalist

enterprises (companies), put forward an aggressive challenge to the theory of firms of the neoclassical school tradition, and have attracted wide attention from Western economic circles. (Footnote 6) (O.E. Williams, "The Economics of Discretionary Behavior," Prentice-Hall, 1984; R. Marris "The Economic Theory of Managerial Capitalism," New York Free Press, 1964; H. Leibenstein, "Beyond Economic Man," Harvard University Press, 1976; please also see their works and articles of recent years) Because of length restrictions, it would be difficult for this article to engage in a specific appraisal of the theories of Williams and so on. What needs to be stressed here is that the scope of research of these theories can be encompassed by Marx's analytical framework, and their rational elements can be critically used as reference and drawn upon by Marxist political economics, in order to enrich our understanding of the contemporary capitalist economies.

By comparing the above-mentioned theoretical logic of Marx with the macroeconomic analysis of the major Keynesian schools, we can discover that the latter's understanding of the reasons for the loss of equilibrium between total volumes in a capitalist economy is very superficial and not thoroughgoing. If there are only stop-gap demand management measures, it will inevitably lead to an acute contradiction with the microeconomic base of capitalist economic movement. I believe that as far as stressing the motivational mechanism of capitalist economic movement and more clearly explaining this point in the nature of capitalist production are concerned, the theories of the contemporary Western supply-side school surpass the orthodox Keynesianism of the demand-side school. (Footnote 7) (For an analytical criticism of the demand-side school, please see my article "The Relationship Between Supply and Ownership and an Analysis of the Reasons for Shortages" in SHIJE JINGJI WENHUI, No 2, 1987) In passing, it should be noted that this analytical logic of Marx is also greatly different from that of the New Cambridge school which pays great attention to distribution links.

On the basis of what has been noted above, Marx did further research on the specific processes in the production of surplus value and the accumulation process at the microeconomic level of the capitalist economy. This gave his theoretical analysis a strong dynamic historicity, and thus his microeconomic analysis and macroeconomic analysis were able to organically form an integral entity.

Marx pointed out that there are two methods by which surplus value is created: the production of absolute surplus value and the production of relative surplus value. The former is achieved through lengthening the working day while the latter is achieved through reducing the necessary labor time of laborers. (Footnote 8) ("Das Kapital," Vol 1, p 350) The production of absolute surplus value forms the general basis of the capitalist system and is also the starting point of the production of relative surplus value. It is related solely to the the length

of the working day. However, the production of relative surplus value "brings about basic revolutions in the technological process of labor and in social organization." (Footnote 9) (Ibid., p 557) Following this analytical path, Marx investigated the evolution of capitalist production technology and enterprise organization modes and further studied the capitalist factory handicraft industries and mechanized large-scale industry in history. (Of course, today we can continue Marx's process of investigation and analyze the influence of the scientific and technological revolutions since Marx on the process of capitalist economic movement, including the influence on the structure of labor.) In Marx's theoretical system, not only is there transverse analysis of capitalist economic movement (the microeconomics of the neoclassical school restricts itself to this transverse static description) but also a historical, longitudinal perspective. Technological progress and the new creation of systems form within this system the endogenous variables of the theoretical model. It is not like in the neoclassical theoretical model where technological conditions and system factors are seen as fixed and unchanging.

In the history of economic ideas, the original positivist research which Marx carried out on the microeconomic level in terms of the capitalist accumulation process and accumulation mechanisms resulted in his theoretical structure clearly differing from all Western bourgeois economic schools (including the theoretical system of Adam Smith of the classical economics school). In a distinctive way, Marx put forward the issue of accumulation in capitalist enterprises from the angle of a microeconomic motivational mechanism. As the personification of capital, the capitalist's motivation is increase in value. The continuous and feverish pursuit of increase in value spurs the capitalist to continually turn surplus value into capital and to continuously carry out accumulation. This is determined by the innate law of surplus value and therefore by the goals of capitalist enterprises. At the same time, competition also means that the innate laws of the process of capitalist economic movement act as external coercive laws governing every capitalist, and every capitalist enterprise, forcing them to continually enlarge their capital so as to maintain their own capital. (Footnote 10) ("Das Kapital," Vol 1, pp 649-650) Marx's explanation of the level of accumulation and his deductions about the historical trend of capitalist accumulation further explained the violent clash of class interests involved in the process of capitalist accumulation and led to Marx's highly simplified dynamic analysis of the growth mechanism of the capitalist economy as well as of total social property, unemployment and other macroeconomic variables. In the second volume of "Das Kapital" Marx directly researched, on the macroeconomic level, the conditions for accumulation and also researched the prerequisites for the accumulation of capital and for expanded reproduction. In modern Western economic parlance, this is the issue of macroeconomic equilibrium. It is not difficult to discover that in the overall process of deduction, accumulation (its innate

mechanism, results and conditions) is the bridge and link which ties Marx's microeconomic analysis with his macroeconomic analysis. Here we can also recognize the profound and extraordinary aspects of Marx's economic ideology.

In comparison, the neoclassical microeconomic system in no way touches on the question of accumulation, and its static structure is unable to accommodate an investigation into the microeconomic accumulation mechanism. At the same time, it cannot consider the question of the concentration of capital, an issue put forward first in the history of economic thought by Marx when he was researching the process of accumulation. This question forms one of the major propositions in modern Western industrial organization economics. Keynesian school macroeconomics explains the conditions spoken of by Marx for realizing accumulation only from the angle of macroeconomic conditions for static equilibrium and conditions for balanced growth. Thus, it completely overlooks research into the specific accumulation mechanism. (Footnote 11) (In terms of its meaning, the Marxist category of accumulation includes the two aspects of Keynesian savings and investment. Of course, this subdivision of the concept by the Keynesian school does have some desirable points.) In passing we should point out that Keynes was influenced by the Smith doctrine and directly influenced by Marshall who stuck to that doctrine. (Footnote 12) (The content of the Smith doctrine is that annual social product can be completely broken down into the three income components of wages, profits and rent, and thus it mistakenly overlooks the depreciation component which is part of compensatory funds. In the text of "The Principles of Economics," Marshall only used a small amount of text to vaguely talk about machine depreciation, and he used the concept of interest in doing so (see p 95 of the first volume of the Chinese translation of this book)! This concept was confusedly inherited by Keynes in "The General Theory of Employment, Interest and Money." (J. Hicks, "Economics Perspectives," Commercial Press, 1986, pp 164-165)) In his total macroeconomic volume analysis, Keynes completely overlooked the question of fixed capital depreciation and renewal discussed in "Das Kapital." Thus the connotations of Keynes' concept of total demand and supply are not precise.

Of course, the specific inferences "Das Kapital" makes in various respects about the historical trend of capitalist accumulation (such as the relative volume of industrial reserves, that is the unemployment rate, growing together with the power of wealth (Footnote 13) ("Das Kapital," Vol 1, p 707), the increasing simplicity of labor (Footnote 14) (Ibid., pp 433, 460) and so on) only reflect the actual situation in the early stage of capitalist industrialization at a time of transition from an agricultural economy to an industrial economy. If they are to have long-term and universal applicability, we should make them clearer and more specific through an investigation of the experiences of the actual process of historical

development. Thereby we will ensure that Marxist political economics sees sustained development in its continuing mutual role with reality.

To sum up, the dynamic analysis method and the historical analysis method related to this are major aspects by which the Marxist analytical framework is superior to the analytical frameworks of the major schools of modern Western bourgeois political economics. Although various economists of the neoclassical school long ago put forward the need to make microeconomic analysis dynamic, until today they have not been able to achieve real progress in this respect. Marx used the dynamic method and the historical method to examine the technology, enterprise organization and the evolutionary course of industrial organization in the process of capitalist economic movement. These areas are ones which the neoclassical system has difficulty in encompassing and this fact is one of the major criticisms the well-known U.S. economists Nelson and Winter levy at the neoclassical school. (Footnote 15) (R.R. Nelson and S.G. Winter: "An Evolutionary Theory of Economic Change," Harvard University Press, 1982)

Of course, I am not saying that the theories of the major modern Western schools of economics have no desirable points. For example, the stressing of the issue of the effective deployment of demand and resources, and giving prominence to the importance of motivational mechanism and pricing mechanisms, which form part of the microeconomic theory of the neoclassical school, clearly have aspects worth using as reference. However, before actually using them for reference, we need to obtain a quite clear understanding and comprehension of the explicit and implicit assumed conditions of this system and their economic significance, as well as of the applicability of the theoretical conclusions and the strong points and weak points of its analytical tools. Thereby, we will be able to guarantee that what are drawn in are its rational elements and not the opposite. Thus we will be able to avoid a situation whereby we just follow others and lose our own originality, and will thus also be able to avoid contradictions. I have no intention of here setting down a detailed list of those rational and those irrational elements.

II

Below, we will continue to look at the central topic under discussion and will, from a comparative economic theory angle, do a comparison of the price formation mechanism analysis in "Das Kapital" with the price formation mechanism neoclassical model of competition. This will assist in further demonstrating the special theoretical value and methodological value of the analytical framework of "Das Kapital."

First, let us discuss the neoclassical model of general equilibrium with complete competition. The system of general equilibrium can be traced back to the French

mathematical economist Leon Walras. In Walras' system, how is a price determined in a competitive market? Walras' handling of this question was strange. According to his description, seen in terms of competition, in a very well organized market, the actual traders (the buyers and sellers) do not determine the price. They are only passively subject to the price. The price must be determined through a procedure somewhat like an auction by another person or some independent executive organ—Walras calls these the auctioneer or broker. However, how are such organs produced in the real world? Do they widely exist in Walras' world of competition? On this point, he provided no explanation. (Footnote 16) (Leon Walras, "Elements of Pure Economics," George Allen and Unwin, Ltd., 1954, English edition, pp 83-91)

In the latter theoretical analysis by the neoclassical school of firms (enterprises) in a competitive market, Walras' precondition of external fixing of prices (that is, as an external parameter) was carried on intact. Of course, it should be affirmed that they have expanded microeconomic research to the resource deployment activities of individual firms and that this has had great significance in opening up the range of research in economics. At the same time, it is correct for them to stress that in an atomistic competitive market structure, individual firms cannot by themselves obviously influence or control market prices. The problem lies in that the neoclassical school's research into the activities of firms takes partial equilibrium analysis as a base, completely overlooks time factors in firms' activities, and severs the innate and dynamic relationship between firms' readjustment activities, the changes in supply volumes of sectors (or trades) which are aggregates of firms and changes in market prices. In fact, the readjustment of individual firms constitutes a specific part of the readjustment of sectoral supply volumes. As their market share is very small, the isolated readjustment activities of atomistic individual firms cannot by themselves clearly affect prices. Also, they cannot manipulate prices. In this sense, prices can be seen as parameters external to the readjustment activities of individual firms. However, when we say that isolated, individual firms cannot control prices, it does not mean that after their readjustment prices will remain unchanged and at the same levels as before. This is because at the same time other firms will be carrying out readjustment. This type of readjustment carried out by aggregates of firms can undoubtedly change the product supply volume in this sector, and, depending on the size of the change, it will directly affect the market price for that product. This will also lead to new readjustment activities by the individual firms and by aggregates of firms, which will lead to new changes in sectoral supply volumes and market prices, and so on. This is a never ending cycle. If we further consider the changes in demand, we find that the situation is even more like this. Here, between the individual firms there exists a complex and sustained mutual role, and the overall result of this mutual role will determine the orientation and size of the changes which will occur in prices. The latter will then, in time, affect the former.

Although in neoclassical microeconomic theory sectoral analysis is not missing altogether, its sectoral analysis and the analysis of firms are separated from one another and it is not possible to examine the mutual roles between producers. At the same time, the limited dynamic methods (such as the spider-web model) adopted in sectoral analysis cannot be employed in firms' analysis.

From this we can see that the microeconomics of the neoclassical school cannot reveal the dynamic relationship between price formation and firms' readjustment in a competitive market or the continuous mutual roles between these. Thus, it is unable to explain the price change mechanism in an actual competitive market. To a great degree, this is because the traditional neoclassical competitive firm model adopts a hypothesis involving a series of suppositions, for example that information is complete, that demand is completely elastic, and that resources are equal and completely replaceable, which are very far from reality.

Compared to the neoclassical model of competition, the economic thought involved in the analysis of the price formation mechanism in a competitive market in "Das Kapital" is much more wide-ranging and more profound. In Marx's view, value is the pattern of price, while price is also subject to the influence of the contrasting relationship between supply and demand. Thus, Marx's analysis of price formation and the mechanism of price change is carried out on the two levels of value and of price itself, and links these with competition within a sector and between sectors.

First, in analyzing value formation and the mechanism of changes in value, Marx analyzed that which the neoclassical model has never analyzed—the competition between the producers (firms) within sectors. In order to exclude interference from the supply-demand relationship, this analysis by Marx was carried out under the supposition of supply and demand being equal and price and value being equal. Seen from the static angle, the result of competition between the producers within sectors is that the different individual values are averaged out and form a social value. Those producers which adopt improved production modes can, as the individual value of the commodity is lower than the social value, obtain extra profits. Seen from the dynamic angle, the laws of competition will force other producers to also adopt new production modes and to adopt new technology and equipment. Thereby the productive forces of the different enterprises in the same sector will see an overall improvement and this will lead to a decline in the social value of this commodity. A decline in value will undoubtedly lead to a decline in price. Also, as we have noted above, Marx linked the mechanism of competition with the accumulation mechanism. Thus, Marx actually directly or indirectly linked the formation of value (price) and the mechanism for its change with the

mechanism of competition, the accumulation mechanism, the mechanism of technological progress and the motivational mechanism. This rich content is something which the neoclassical formalistic model of competition has never had.

Second, Marx drew on intersectoral competition and examined the influence of this competition on the formation and change of value and price, as well as the role played here by the supply-demand relationship. Marx held that value is the center around which price fluctuates. The deviation of price from value regulates the supply and demand fluctuations, while the latter also then play a role on the former. In the market, when supply does not meet demand, the price will rise above the value (or its transmuted form, such as production cost). Thereby some producers with low efficiency (but with quite high individual value) will enter this sector, and this will lead to the appearance of the opposite process. In the opposite case, the opposite result will occur.

According to Marx, in any fixed situation, value is never the same as price and supply is never the same as demand. If they came to be equal, it would be a coincidental occurrence, and thus in scientific terms, it would be equal to zero. That is to say, at a fixed point in time, price and value are almost always unequal and supply and demand are almost always out of balance. As this inequality and lack of balance will occur successively, the result of a divergence in one respect will lead to an opposite divergence in the other direction. Then, within a period, which may be short or long, as far as the average of the time sequence is concerned, these divergences will offset each other as positive and negative factors. Supply-demand and price and value will become averages in the course of fluctuation and only thus move toward equality.

It is not difficult to understand that Marx saw competition as a sustained, unending historical process. What he stressed was the dynamic aspect of the process of competition and he strove to reveal the truths about socio-economic systems as contained in price formation and price change mechanisms. Undoubtedly, Marx's model is more fully able to reflect the real situation of actual economic movement and to provide more information and analytical tools for people in scientifically understanding and correctly mastering the real world. In comparison, the strongly static neoclassical competitive equilibrium model is not much different from fabrication. It is a fake positivist model and at most it can be an inferior reference system for the real world. Possibly the only positive result of the great amount of research over a long period in terms of the competitive equilibrium model was that researchers finally "discovered" that the general equilibrium model was far removed from reality and also "discovered" the "vulgarity" of the existing neoclassical textbooks. (Footnote 17) (F. Hahn, "The General Equilibrium Theory"; see Daniel Bell, "The Crisis in Economic Theory," New York Basic Books,

1981) Thereby, they themselves punctured the traditional neoclassical mythology that "competition can guarantee the automatic movement of supply and demand toward equilibrium."

III

Above we have, through a comparison with the theories of the major modern Western economic schools, examined the analytical framework of "Das Kapital" from the angle of the economic movement mechanism. Now, using this as a base, it is intended to further discuss a question which has for a long period been quite controversial in our country. That is, what, in the end, is the object of study in "Das Kapital"? It does not need to be said that what is said about the object of study in "Das Kapital" is also applicable to the object of study in political economics.

In the preface to the first edition of "Das Kapital," Marx wrote: "In this work I have to examine the capitalist mode of production and the conditions of production and exchange corresponding to the mode" and "the final aim of this book is to uncover the laws of economic movement in modern society." (Footnote 18) ("Das Kapital," Vol 1, p 8 and p 11) How are we to understand the "mode of production" mentioned here? I believe that it is necessary to understand this in the light of the actual contents of "Das Kapital" and not to try to interpret it without real understanding. We know that the first volume of "Das Kapital" examines, on the abstract level, the capital production process in the narrow sense, the second volume examines the process of capital circulation and the third volume examines the overall process of capitalist production. That is, "revealing and explaining the various specific forms produced when examining the process of capital movement as an entirety." (Footnote 19) (Ibid., Vol 3, p 29) From this it is not difficult to come to the conclusion that the term "mode of production" mentioned above actually refers to the production process in the wide sense. These words of Marx in the "Theory of Surplus Value" can be said to be absolutely fitting evidence: "The capitalist process of production is not an ordinary process of production; the antagonistic social determinateness of its important elements is only developed and realized in the process itself. This determinateness is a characteristic all throughout this process, and makes this process appropriately become the **mode of production** of this social determination, that is, the capitalist **process of production**" (stress added by citer). (Footnote 20) ("Complete Works of Marx and Engels," Vol 26, 3d book. RENMIN CHUBANSHE, 1972-1973, p 545) Similar usages are to be found in other works by Marx. (Footnote 21) ("Selected Works of Marx and Engels," Vol 1, RENMIN CHUBANSHE, 1972, p 43) Of course, the important thing is not a few quotations but the contents of "Das Kapital" itself.

Thus, what "Das Kapital" studies is the capitalist production process in the broad sense. To put it briefly, this is the overall capitalist economic system and not, as people often say, just the capitalist relations of production (these only form a subsystem of the major socio-economic system). What it seeks to reveal are the patterns of overall capitalist economic movement, including the mechanism of technological innovation. One-sidedly seeing the object of study of "Das Kapital" as the relations of production is not beneficial to gaining an overall understanding of the analytical framework of "Das Kapital," nor beneficial in the development of Marxist political economics. At the same time, seen from a systems viewpoint, as political economics is a "principal science" in the field of economics, if its object of study only includes the relations of production and not the overall social economy, it may well be asked which science will complete the research task for the latter aspect?

As far as Marx's overall economic analytical framework is concerned, the following should be stressed: First, the "Das Kapital" which is officially published today is an "unfinished symphony." This not only refers to the fact that the second and third volumes were compiled by Engels on the basis of Marx's manuscripts, but also to the fact that the structure of "Das Kapital" is incomplete. For example, the chapter on "Competition" which Marx repeatedly referred to in the third volume of "Das Kapital" (Footnote 22) ("Das Kapital," Vol 3, pp 219, 861), was not written and thus is not included in today's "Das Kapital." Second, "Das Kapital" was only part of the huge writing program Marx had initially planned. For example, in the "Introduction to a Critique of Political Economy" he proposed the following plan (Footnote 23) ("Selected Works of Marx and Engels," Vol 2, p 111): 1) The general abstract determinations which pertain more or less to all forms of society. 2) The categories which form the internal structure of bourgeois society and which form the foundation of the basic classes. Capital, wage labor and landed property. The relationship between these. Cities and rural areas. The three large social classes. The exchanges between them. Circulation. Credit system (private). 3) The state as the epitome of bourgeois society. The "unproductive" classes. Taxation. National debt. Public credit. Population. Colonies. Emigration. 4) International relations of production. International division of labor. International exchange. Export and import. Exchange rates. 5) World markets and crises.

It can be said that the "Das Kapital" which we examine today is only the first two parts of the above plan which Marx had detailed. The latter three parts are basically not touched on at all. Clearly, the degree of state interference and the degree of internationalization of economic activities which is seen in modern capitalist economic movement could not have been envisaged in any time in the past (including Marx's time). Thus, wide-ranging and deep-going research into the latter three parts of Marx's plan must be a pressing task for

today's Marxist political economics. At the same time, we recognize that the analytical framework adopted in Lenin's "Imperialism Is the Highest Stage of Capitalism" cannot be compared with the analytical framework of Marx's "Das Kapital" or the overall framework of his plan. Further, various of the characteristics of imperialism listed by Lenin have today been replaced by other characteristics.

Thus, we propose broadening, on the basis of Marx's plan, the analytical framework adopted by "Das Kapital." Then under this unified analytical framework, we should develop study into the modern capitalist economy and scientifically examine the enterprise operation mechanism, industrial organization and industrial structure, wages and labor markets, state intervention, the internationalization of the process of economic movement, and other major economic phenomena of the modern capitalist economy. Thereby we will be able to avoid the situation which has existed for a long time whereby in the capitalist section of political economics, the economic analysis for the period of "free competition capitalism" and that for the period of "monopoly capitalism" have been mechanically cut apart, leading to fragmentation. We will also be able to guarantee the completeness and the historical dynamism of the examination into the overall process of capitalist economic movement. Undoubtedly, in this analytical research, it will be necessary to critically draw in all rational elements from foreign economics, absorb the essence and discard the dross and then employ them ourselves. This will ensure that Marxist political economics sees swift development. In our attitude to foreign economics, we should avoid going to either extreme. At the same time, we must not totally exclude or indiscriminately criticize those things which we do not truly understand. Such a nihilist and ignorant attitude is also inappropriate. It may appear that such attitudes "safeguard" Marxist economic theory, but actually they obstruct its development, and they go against Marx's scientific spirit.

IV

For a long time, under the influence of the "Political Economics Textbook" (Third Edition), edited by the USSR Academy of Sciences, our country's economic theory circles have in their analysis of the socialist economic system, usually adopted, on the formal level, the structure of "production, circulation and the overall process of production (or distribution)" as in "Das Kapital." However, they have always lacked the deep sense of history and living sense of reality which is to be found in "Das Kapital." What are the reasons for this?

We feel that to a great degree this is because they have been unable to truly and deeply grasp the analytical structure of "Das Kapital" and have been unable, in a way which "Das Kapital" was able to do, to place stress on concrete real processes of economic movement and,

on a positivist base, carry out careful analysis of micro-economic enterprise operational mechanisms, motivational mechanisms and enterprise goal functions. Of the related works in the past, we find that most were empty dogma and abstract slogans, while many were propaganda for the economic policies at that time (some of which were extremely erroneous economic policies). Such works lead to the superficiality, weakness and frequent changes of theory and are out of touch with reality.

Over the last few years, following the continued development of economic reform, our country's explorations in economic theory have been very dynamic. Seen from the normative angle and the historical materialist angle, the task of socialist economic development is to raise economic efficiency and develop the social forces of production by the greatest possible degree. Therefore, in economic structural planning and actual economic life, there is a need to establish a microeconomic base in accord with the above task. This will include ownership structure, microeconomic decisionmaking structure, enterprise operational structure and motivational structure. The analytical structure of "Das Kapital" provides us with direct and indirect inspiration for this. When our country's economic circles are intensely discussing ownership systems and enterprise operational systems, and when stress is being placed on studying enterprise activities, people are actually, but unknowingly, being benefited by Marx's theoretical logic and the unique analytical framework of "Das Kapital."

The change in the socialist economic structural model will also mean changes in socialist economic theory and will mean transformation of the former analytical method of socialist political economics and new examination into a series of its important theories. I believe that, in this respect, the analytical framework of Marx's theory provides us with a good starting point and model. Whether we are carrying out a deep examination of the overcentralized traditional model involving centralized power, carrying out thorough analysis of the Yugoslav model of autonomy and separation of power, or planning new economic models, we can use Marx's analytical model for reference in carrying out overall research into the microeconomic motivational mechanism, technological progress mechanism, accumulation mechanism and other essential aspects which touch on the process of economic movement. This research and theoretical comparison will provide us with a basis for assessing which of these models is superior and which is inferior and also provide us with a standard for making social choices. It will also enable us to deeply grasp the orientation and main points of economic reform. Further, the dynamic method, the historical analysis method and the method which unifies microeconomic analysis and macroeconomic analysis adopted by "Das Kapital" in researching these mechanisms will be powerful tools in concretely transforming the traditional socialist economic theory and developing socialist political economics.

With the aid of Marx's analytical framework, we can also carry out analysis of the existing theoretical models of the socialist economy and will be able to swiftly and promptly grasp the strategic points of any given theoretical model. For example, we will be able to immediately discover that the static Lange model of the Walras' tradition completely lacks a solid microeconomic base, that the economic movement mechanism conveyed by the model completely overlooks the microeconomic motivational mechanism and innovation mechanism and that its effectiveness is clearly subject to doubt.

Based on the above analysis, I believe that Marx's above-noted analytical framework is extremely well-suited to socialist economic research.

Finally, if this article is able to serve as a stimulant to people to think and to seek in the areas of economic research methodology, establishing new socialist economic theories and carrying out new theoretical exploration, I will feel extremely gratified.

Persist in Introducing the Competition Mechanism Into Contracted Management of Enterprises

40050207i Beijing HONGQI [RED FLAG] in Chinese No 6, 16 Mar 88 pp 40-43

[Article by Guo Hongqi [6753 3163 1477], commissioner of Handan [Prefecture], Hebei Province]

[Text] When discussing the intensification of reforms in his report delivered at the 13th CPC Congress, Comrade Zhao Ziyang stressed that no matter what kind of responsibility system they adopted, enterprises owned by the whole people must select their managers through competition. They should determine the reward of their managers mainly by basing on the management results of enterprises, including the increase of asset value, so as to let entrepreneurs emerge amidst the market competition. On the basis of experience we have gained over the years about the system of contracted management, which is marked by the invitation of tenders through open channels and bidding for contracts, after studying the report of the 13th CPC Congress, we profoundly feel that to introduce the competition mechanism into the contracted enterprises is a significant reform. This is a kind of reform that helps us realize the need for development, helps managers of enterprises have their talent showing itself, promotes reform of the management mechanism of enterprises, and further taps the immense potential of enterprises.

1. Over the years, to introduce the competition mechanism into enterprises has been the starting point and the need of reforming.

With a population of 4.86 million, Handan Prefecture occupies an area of 9,271 square kilometers and is a rather large prefecture in Hebei Province. However, its economy was so backward that it still depended on

financial subsidies granted by the state. With an aim to put an end to this predicament, we have over the years conducted investigations and examinations on reform of enterprises. For example, we reduced tax rates and allowed enterprises to retain more profits, entered into contracts for realizing profits, introduced the system of management and responsibility concerning targets and profits. To a certain extent, we achieved results in these reforms, but the economic results were far from satisfactory. Hoping to further solve the issue of separating the right of ownership from the right of operations, and create a responsibility system of enterprise management that meets the conditions of Handan Prefecture, we implemented in some small factories on a trial basis the responsibility system of contracted management, and asked capable people to undertake the contracts. However, as we did not introduce the competition mechanism into these contracts or formulate contract plans through consultations and negotiations, the contractors often bargained on the contract target so that there was no pressure or driving force in the contracts, and we did not get our expected results. Some of them even ended in failure. For the sake of earnestly invigorating enterprises and giving play to the advantages of the management responsibility system, we conducted on a trial basis the first invitation of tenders through open channels, and bidding of contracts for a prefectural chemical fertilizer plant in December 1986. First, the practice has made us realize that the invitation of tenders and bidding of contracts help widen the contractors' field of vision and reform the traditional method of selecting candidates. The successful contractors are selected through the screening of a number of tenderers. Second, it helps us determine the best contract target. In the past, enterprises often bargained on the targets when the state assigned them. The final target was usually set by pressure from the upper level. In the invitation of tenders through open channels, however, the targets are offered to enterprises from the lower level. These targets are the result of repeated discussions and competition, thereby becoming the progressive and feasible ones that are favorable to production. Third, it helps the formulation of the best plan for managing factories. Generally speaking, the plans for managing factories proposed by tenderers have undergone repeated investigations and careful considerations. Furthermore, some are the result of consultation and exposition by specialists. The assessment group formed by the enterprises inviting such tenderers may select the best one out of them. Fourth, it helps unify the obligations and rights of enterprises. When we decentralized the decisionmaking power to enterprises in the past, it seemed that the obligations and rights of enterprises were presented as gifts by the competent departments. Now, through the invitation of tenders and competition, there are explicit provisions for and legal protection of the obligations and rights of enterprises as well as their managers. They will therefore be bold and assured when performing their obligations, exercising their rights and getting their profits, thereby providing assurance for invigorating enterprises. To put it in a nutshell, only when we introduce the competition

mechanism into contracts can the responsibility system of contracted management be smoothly implemented and can it play its proper role of promoting vitality in enterprises. Therefore, we shall expand very soon the practice, which is adopted by some trial units, to 23 enterprises in the prefecture. In mid-April last year, we further promoted down to county level and implemented comprehensively the contract system, and expanded the practice to all profit-making institutions.

2. The work of introducing the competition mechanism into enterprises' contracts requires a large amount of organizational work and guidance, as well as the suitable environment and conditions created, by the competent government departments at all levels.

The key to implementing the responsibility system of contracted management rests with the selection of qualified managers. Only by means of invitation of tenders through open channels and competition can the capable managers have their talent showing itself. For this reason, we need a large amount of organizational work and guidance by the competent government departments at all levels. We have gained some experience in this respect.

First, we formed a strong atmosphere of competition. When inviting tenders through open channels, many enterprises of this prefecture often published their announcements through the press and radio, welcoming tenderers from all trades and directions. At a certain time, the mass media even stressed and propagated the practice of inviting tenders. Both professional and amateur theoretical workers studied together with leading cadres of enterprises the socialist nature and advantages of contracted responsibility system through invitation of tenders by enterprises, thereby encouraging and stimulating people to take part in the tendering and competition. We enthusiastically affirmed the reform spirit of unsuccessful tenderers by sending appreciation letters to their units and presenting souvenirs to them, so as to encourage them to continue to reform enterprises.

Second, we formed a real situation of competition. In order to form such a real situation and to mobilize the initiative for undertaking contracts, we adopted the following measures for the competition of enterprises' contracts: First, we geared to the needs of society, invited tenders through open channels, and invited tenderers from all social sectors, so that enterprises felt that they were "surrounded by a strong army," thereby developing an active situation of tendering. Second, we requested all enterprises' original leading groups which did not submit tenders or whose tenderers were unsuccessful to comply with the arrangements made by the successful one. Therefore, there was no way out for sluggish and nonambitious people. Third, we made the original leading groups feel that their position was no longer safe, and forced them to stand up and accept the challenge by actively joining the competition in order to survive. The Linzhuang County department store suffered a loss of

19,000 yuan in 1986. Early last year, its manager refused to accept the profit target of 60,000 yuan assigned by the county financial department. The county therefore decided to adopt the practice of invitation of tenders. This manager said: "Please transfer me to another post because I just want to leave this one." The county government announced: "If no tender is submitted by this original leading group, or the tender submitted by it is unsuccessful, the whole group will be disbanded." The manager was shocked by this announcement. He promptly called his group to formulate the tendering plan, and finally won the tendering by offering a contracted profit target of 100,000 yuan. He said: "The upper level let me do whatever I like in the past, but now I have to do well in the work and not to make it worse because I am forced by competition." Generally, there were about five to seven tenderers, or sometimes as many as dozens of them, submitting their offers to the prefecture's enterprises inviting tenders. This is mainly because they have also adopted this practice.

Third, the practice of bidding contracts must be implemented in a systematic, well-planned manner. According to our experience in this respect, we should generally adopt the following successive steps in inviting tenders: First, there was an organization work team undertaking seriously surveys on enterprises that invite tenders. The team also carefully formulated plans for undertaking contracts, including the system of contract targets, qualifications of the contractor, authority of the contractor, measures for giving bonuses and punishment, as well as conditions, procedures and contents of contracts. The formulation of reserve targets, which focused on profits of the contract, had to be conducted in an advanced and scientific manner. Second, a notice inviting tenders was issued. Meanwhile, we also organized an assessment council formed by the responsible people involved and representatives of the workers, which was responsible for assessing the political quality and management skills of the tenderers. Third, we organized a meeting on public reply, at which the tenderers and chief representatives of tendering groups stated their plans and targets of factory management in an order determined by a draw. They also answered questions raised by members of the assessment council. Workers and other people attending the meeting might also ask them questions. Fourth, the successful contractor was selected by combining democratic assessment with decisions made by leaders. In connection with the professional skills and management capacity of, as well as the management plan proposed by, the tenderers and their answers given at the meeting on public reply, the council assessed them and reported to the department in charge of the enterprise their opinions in written form on each of them. The said department thus selected and approved the contractor who proposed the best plan. Only thus can we earnestly create a competition environment and introduce democracy, popularity and progress in competition.

Fourth, the practice of contracting through competition must act in accordance with the practice of opening up,

unity and equality, as well as the principle of optimization. We felt that the condition of opening up was the basis of competition. By opening up, we meant that tenderers were not judged by their professions, age and place of residence. By unity, we meant the unity of criteria and procedures of selection, so that there was a unified yardstick for the competition. By equality, we meant that all competitors were under the same treatment and had equal chances. We guaranteed that anyone who was capable would win and that anyone who was incapable would lose, and allowed no influences resulted from complicated personal relations. By optimization, we meant that the best contractor was selected by summing up the assessment opinions on each of the competitors. The successful tenderer might be the one that did not offer the highest contract targets. Rather, only the one that offered advanced and feasible targets should be selected as the best one. When selecting a contractor from contracting groups, we must not only judge the quality of their chief representatives but also their personnel structure in terms of rationality of their intellectual resources, knowledge and management skills. The best contracting group was therefore determined. We stressed upholding the above principles in implementing this practice in our prefecture. Among the chief representatives who won the prefecture's contracts for 801 units, 582 were cadres, 205 were workers and 14 were peasants. Of the two tenderers attending a meeting on public reply held at the prefectural chemical plant, one was a 30-year-old group led by a 52-year-old director; and the other was just a 4-year-old group led by a 26-year-old deputy section chief. The latter thought that the leadership would prefer the original leading group and tried to know much about the situation from a responsible comrade of the commissioner's office. The responsible comrade told him: "We don't care who will win and we do not favor anybody. But what we consider are just the contract targets and management plans. The poor ones will be eliminated by the good ones." As a result of the competition, the group led by this young man won the contract.

3. We should strive to give play to the positive role of competition mechanism in the work of contracting enterprises, and strive to promote reforms within enterprises and perfect their management mechanism.

It is just a beginning for a contractor that has just obtained the right of operations. The task of conducting corresponding reforms in enterprises is still very arduous. The competition mechanism is still required to promote various internal reforms of enterprises, to rationalize the relations between workers and enterprises, to perfect the management mechanism of enterprises, and to boost their vitality.

The contract targets are shared and shouldered by everyone in the group in the form of subsequent contracts conducted level by level. They share the destiny with the enterprise in question and take the same risks. In the past, when the upper level of an enterprise assigned

targets to its lower level, the process was also marked by repeated bargaining. This situation no longer exists after the competition mechanism is introduced. For instance, the She Xian Metallurgy and Mining Company invited tenders for its contract in May 1987. A young deputy manager won the contract by offering a profit target of 6.9 million yuan. He divided the target figure into fractions and assigned them to various factories and mines. He made it clear that no one would be appointed as director of a mine unless he had fulfilled the target. Eventually, he successfully fulfilled his contracted target by making 6.92 million yuan of profit.

The front line production becomes vigorous when the selection of workshop leading cadres is done by competition. In the past, one had to go through tedious and extensive procedures before transferring the head of a workshop. Therefore, some positions were occupied by those who were incapable, while those capable people found no way to show their talent. Now, as some contracted enterprises have adopted the same practice for their workshops, whoever can fulfill the task may lead the workshop. The practice combines the duty, rights and interests together. This is favorable to guaranteeing the centralized leadership by factory directors (managers) over production and management, as well as mobilizing the initiative of the grass roots, thereby ensuring that the contract targets can be fulfilled.

Through competition, we may further promote reform of the internal distribution system of enterprises, and mobilize the initiative and creativeness of workers. The distribution system of "eating from the same big pot" hampers the initiative of workers and does not help us give play to their creativeness. After introducing the competition mechanism into the distribution system, the income of workers is linked to their labor results and the business results of their enterprises. When workers have done more, the state will be delivered more revenue, their enterprises will retain more profits, and each of them may receive more income. This helps us implement the principle of distribution according to work. For example, Chengan County long ago adopted for its contracted enterprises the following types of responsibility system, including the full piece-rate wage system, the system of input-output results, the system of contracted responsibilities in five aspects, the floating wage system with payment linked to duty, and the system of appointment. These practices stimulated the initiative of workers and brought about remarkable economic results.

The introduction of competition mechanism into the contract boosts the vitality of enterprises and improves the economic results. The mentality of people is also greatly changed. Compared to the previous year, the actual amount of profits realized by the prefecture's enterprises adopting the responsibility system through competition, accounting for 88 percent of the prefecture's total number of enterprises, was improved by 76.3 percent in 1987. Many contractors have improved their decisionmaking capacity for taking risks so that the

unprofitable enterprises are revitalized. At present, we are acting and further intensifying reforms of our enterprises according to the requirements put forward by the report of the 13th CPC Congress, and are introducing the competition mechanism into the management and cadres-personnel management of enterprises, so as to make the competition mechanism play a more important role in our reforms.

16th Lecture of Forum on Socialist Commodity Economy: On Price Differences

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[Article by Wang Zhengxiao [3769 2973 2400]]

[Text] I. The Meaning, Basis and Functions of Price Differences

Price differences of commodities refer to differences in the price of a commodity in different sales channels, sales outlets, seasons or quality. The differences may be shown in various forms and patterns, which can be summarized into the following five categories:

First, purchase-selling price difference.

This refers to the difference between the purchase price of a commodity by a commercial enterprise and its wholesale price (or the retail price in some cases) in a market at a given time. It chiefly consists of the necessary expenditures on circulation incurred by the commercial enterprise in its activities of purchasing, transport, storage and sales, in addition to a rational profit (and, in the case of agricultural products, even taxes thereon).

This is the first kind of difference in the process through which commodities enter into the realm of consumption, showing the economic relations between commodity production and commodity circulation. This kind of difference may be further divided into differences of the purchase price and the selling price of industrial products, as well as those of agricultural products.

Second, regional price difference.

This refers to the difference of the price of a commodity in various regions at a given time.

Such difference is developed mainly because the natural conditions and production conditions used by different regions to produce a commodity are not the same. Moreover, this kind of difference is developed when the price of that commodity includes the expenses on its inter-regional transfer.

This kind of price difference can be further divided into three main types: First, it is the difference of purchasing price of agricultural products between two different

regions; second, it is the difference of the factory price of industrial products between two different regions; third, it is the difference of the selling price between two different regions.

Third, wholesale-retail price difference.

This refers to the difference of the wholesale price and the retail price of a commodity at a given time. It is the last kind of price difference in the commodity circulation. This kind of difference is developed when a retailer includes in the price of a commodity the expenses on and the cost of transport, wear and tear, interest and management which are incurred in his purchase of that commodity from the wholesaler and the sales of the same to the consumer, in addition to his rational profit, and so on.

Fourth, seasonal price difference.

This refers to the difference of the price of a commodity in a market at different seasons. The objective economic factors that bring about such difference are mainly: 1) For some commodities, there may be a time lag between its production and consumption, the commercial and production departments must therefore purchase and store up part of them during the production season, so that these commodities will still be available during the consumption season, or throughout the year. However, this practice requires the producer to bear charges on the management of inventory, as well as interest on the capital, thereby resulting in a difference of the price of a commodity between the two different seasons. 2) Such difference can also be developed because of the different amount of labor consumed in the production of some commodities (mainly agricultural products) in different seasons.

Fifth, quality price difference.

This refers to the difference of the price of a commodity in a market because of variations in quality. In terms of the contents of quality difference, it can be divided into various forms, such as difference in variety, grades, specifications, appearance and designs.

Any price difference between two similar commodities of different quality is developed mainly because of the different amount of labor consumed in production. Besides, the quality and price of similar agricultural products are determined by the natural factors.

What are the objective criteria for judging the rationality of a price difference? Generally speaking, the fundamental content of the objective criterion for judging the rationality of a price difference is that the difference must conform to the objective requirements of the law of value. This is because it is inevitable that from the stage of production to that of consumption, a commodity must pass through many divisions of production and circulation, resulting in the formulation of factory price,

wholesale price, retail price, as well as other prices which are different in terms of location and time. The reason for having these price differences is that a certain amount of materialized labor and living labor must be consumed in the process of production and circulation. Therefore, the price differences of commodities must base themselves on value. Only thus can the relevant producers and business operators have their rational expenses compensated, can they obtain their rational profits and can they deliver a specified amount of taxes to the state. This is the necessary condition, as well as an objective requirement of the law of value, for ensuring the normal production and operations. At the same time, the development of commodity price differences must also reflect the supply-demand relations of the commodity in question. Under the conditions of socialism, the development and formulation of price differences must also be subject to the state plans and policies.

Specifically, a rational price difference is determined by many complicated factors, in addition to being based on the value.

The purchase-selling price difference generally includes the rational expenses on circulation, as well as profits made and taxes, borne by commercial wholesalers or retailers. Therefore, the formulation of such price difference must base on the purchase price and expenditures incurred under the normal conditions for production and operations, so that both the industrial and commercial parties can get back their production cost and obtain a roughly equal share of profits.

The criterion for judging the rationality of a regional price difference is based on the commodity circulation in different economic regions, as well as rational overall plans for promoting the industrial and agricultural production. At the same time, China's regional price difference also reflects special conditions in the border areas, mountainous areas, old areas, new areas, and poor areas. Thus, we should further provide to these areas measures for price support and protection.

The extent of wholesale-retail price difference involves not only the economic benefits obtained by the wholesaler and retailer, but also directly affects the price level of the market. Therefore, the criterion for judging its rationality is to correctly handle the business interests of both the wholesaler and retailer, to mobilize their initiative, and to formulate a series of wholesale-retail price differences in accordance with the importance of a commodity in the economic life of a society, the availability of resources and problems relating to the business operations. Furthermore, we should readjust this price difference in accordance with changes in the wholesale-retail structure, and support retailers to serve the consumers better. We should also pay attention to maintaining a stable price level in the market and gearing to the needs of the people.

The criterion for judging the rationality of a seasonal price difference is whether it is favorable to the production development, helps balance the market supply and demand, and guides the consumption pattern and the supply-demand readjustment. Furthermore, the difference should help the commercial and production enterprises improve their management and operations, update their technology of storage, preservation and production, reduce the rate of commodity waste, and cut their expenses.

The criterion for judging the rationality of a quality price difference is whether it can fully reflect changes in the value, promote the development of social production and a continuous improvement of production technology, improve the product quality, add more variation and designs, and speed up the pace of commodity replacement. Moreover, the difference should fully utilize the available resources, continuously expand the circulation of commodities, and meet the needs of various social sectors.

Price differences are the objective reflection, as well as inevitable results, of various economic relations in the circulation of commodities. It is highly important that we should correctly determine the price differences of various commodities. This is because it plays a major role in promoting the development of industrial and agricultural production, improving the operations and management of enterprises, expanding the commodity production and circulation, perfecting the pricing system and market mechanism, readjusting the market supply and demand, and correctly guiding the consumption pattern.

II. Problems Concerning China's Commodity Price Differences and the Reasons Therefor

China's commodity price differences were gradually formed in the past. They played a role in promoting the socialist transformation and the development of industrial and agricultural production; facilitating material exchange between urban and rural areas, as well as between regions; consolidating the peasants-peasants alliance; and strengthening the unity of various nationalities. However, we should also realize that, in many cases, China violated the law of value in its formulation of commodity price differences in the past. Therefore, a number of problems have developed.

First, it violated the objective rules of economics and excessively narrowed the regional price difference (it was reduced to such a level that such price difference did not exist among many commodities in different stages). Moreover, it incorrectly abolished the seasonal price difference of many commodities. On the quality price difference, it did not pursue the principle of higher price for better quality, and lower price for poor quality, so that the commodity production and circulation, and even the operation of the national economy as a whole, were seriously affected. For instance, the quality price

difference of commodities was narrow, and its formulation was not based on scientific means, so that many poor commodities were not eliminated from China's market. Many commodities were marked by inadequate variety, poor designs and specifications, as well as a slow pace of commodity replacement. This had hindered and brought about losses in the work of earning foreign exchange through export and in developing overseas markets. The excessive reduction and abolition of regional price difference disrupted the price support for the normal circulation of many commodities, so that the situation became a mess and that of abnormal circulation went out of control. The wholesale-retail price difference and purchase-selling price difference of some commodities was so irrational that the initiative of many business operators was hampered, and so forth.

Second, on the structure of commodity price differences, it did not meet the requirement for achieving an average rate of profit. Some commodities were not priced on the basis of their consumption at that particular stage of operations. Profits to which dealers engaging in certain stages of production were entitled were simply abolished. The purchase prices of some commodities were even higher than their selling prices. Therefore, some or even all of them were subsidized by the state, which had basically violated the requirements of the law of value and the principle of commercial accounting.

Third, because of the recent continuous reforms and constant improvement of the circulation system, many new conditions and issues relating to commodity circulation, such as the multiple channels and forms of business operations, have emerged. On commodity price differences, however, the major contents and approaches of accounting of many kinds of price differences have not undergone any comprehensive or profound reform, except for a few price differences (such as the pricing of commodities under mass production). This has hampered the normal operation of commodity circulation.

Why do these problems exist in the commodity price differences?

First, as we were influenced by the "leftist" thinking in the past, we dared not think much about the requirements for market supply and demand, as well as the pricing mechanism, when discussing the price differences. Neither did we seriously formulate nor realize these price differences in accordance with the requirements of the law of value. Rather, we excessively focused on policies and the requirements of redistribution, and used them to replace the complicated objective factors which determined the price differences.

Second, in the past, we did not regard production enterprises which engaged in commodity production, as well as commercial enterprises which engaged in various divisions of commodity operations, as economic entities practicing independent accounting. Rather, we simply

took them as administrative subsidiaries or subsidiaries of the upper level. They did not have the power of pricing, so that the price differences lost their proper readjustment mechanism.

Third, we did not have a thorough understanding about the role of price differences in the market readjustment and pricing mechanism. We basically did not take the commodity price differences as a major component of the pricing system or part of the market development. Rather, we simply treated them as an accounting tool within the commercial sector, or a means of accounting readjustment within the sector at most. In reality, they were therefore highly centralized as a means for strengthening, instead of functioning as the proper mechanism for readjustment.

Of course, it was also because our study on price differences was not intensive enough. We were influenced by some foreign traditional ideology, concepts and management systems, and so on.

III. Some Thoughts on Solving the Problems Concerning Price Differences

The causes for most of the problems concerning the price differences are that we neglected the fact that the price differences were an objective requirement of the law of value in commodity production and commodity circulation; that the price differences were a major component of the pricing system; and that they played an important role in correcting the relations between production and circulation, the relations between circulation and consumption, and the interests among the state, enterprises and individuals. Therefore, we should tackle the problems mainly by this approach in order to solve the problems concerning price differences.

First, we must uphold the basic principle that the commodity price differences should be based on value. In making arrangements, we should of course take into consideration the market supply and demand, as well as relevant policies of the state. When applying these price differences, we must avoid using them as a means for redistribution. Instead, we must actively use them as a mechanism for readjustment, which is their proper role.

Second, we must seriously implement the accounting practice and deal with each kind of price difference on an individual basis. We should properly widen the gap of various price differences. At present, we should mainly implement the policy of determining the price according to quality. We should uphold the principle of higher price for better quality, and lower price for poor quality. At the same time, we must arrange well the regional price difference in accordance with the requirements for rational circulation of commodities; and arrange well the seasonal price difference in accordance with the principle of balancing the market supply.

Third, we should strengthen the cost management of industrial and commercial enterprises. We should also strengthen the supervision and examination over, as well as the coordination of, commodity price differences of enterprises by such organizations as trade associations. Under the socialist system, we should systematically establish trade associations for different commodities, and strengthen their roles and functions. This is a good practice for exercising democratic and scientific management of price differences.

Fourth, we should further develop and intensify the pricing reform. We should take the price differences as an important content for rationalization of the pricing system. We must make the formulation and realization of price differences as an active component part for developing and perfecting the market mechanism and market system. Furthermore, we should impose stiff restrictions on the criteria and specific requirements for determining the price differences of some commodities (such as the quality price difference and the regional price difference). We must seriously hit at the production and supply of counterfeit commodities, acts of hiking prices in a disguise way, as well as other illegal acts.

Fifth, we should actively improve the accounting methods for commodity price differences. There were many problems in our past methods of calculating the price differences. For instance: 1) We based our calculation on direct perception, such as the sense of touch, seeing, smell and taste. However, we did not have any precise and scientific base or standards for calculating the percentage of price differences (price differences rate). 2) We based the price differences on the consumption of primary commodities which were important to people's livelihood. For instance, we classified the grade and determined the price of pigs by basing on the rate of pork production. This practice encouraged peasants to raise fat and large pigs. This neither met the demand for lean meat nor made the production of large pigs become economical. Therefore, this method of calculating the price differences is very backward. 3) The calculation of some price differences simply relied on administrative measures or the practice of acting indiscriminately. We readjusted the purchase-selling price difference and the wholesale-retail price difference of many commodities by adopting some simple tricks of deduction and addition. Obviously, this did not conform to the situation. If we need to formulate a price of a commodity subject to mass production, we must establish a certain means and formulas for accounting measurement. This by no means can be solved by simple tricks of deduction and addition. 4) The calculation of many expenses, as well as the simple calculation of charge rates and price difference rates, cannot gear to the needs and the complicated structure of the ever expanding commodity economy. 5) On the accounting of some price differences, we simply adopted the method and standards of processing item by item (the approach for single production method, single flow and single effect of use). There was no lateral

accounting (the approach for multiple production methods, diversified flows and multiple effects of use) for comparison. Therefore, it was difficult to have the optimum choice of factors of price differences. For this reason, the calculation of price differences must be reformed. In reforming, it should be simplified, precise and scientific in order to reflect the specific contents and requirements of price differences. At the same time, we should determine the price difference rates of some commodities, or the relevant necessary measures and regulations, on a regional or commodity basis. We should neither make it too simple nor act indiscriminately. Furthermore, we should actively establish and perfect the corresponding system and regulations, so that they will have a legal background for implementation and supervision, and that China's calculation and management of price differences will become standardized.

'Guarding Against Others' and 'Guarding Against Oneself'

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No 6, 16 Mar 88 p 47

[Article by Mao Shuzheng [3029 2579 1767]]

[Text] The Bengbu Cigarette Factory which was once in deep waters has been named one of the country's most advanced units in the tobacco trade, having made substantial increases in such economic indexes as output value, profits and taxes handed over and workers' income after the institution of reform. The workers and cadres said: "Our factory has done well in reform because our director, Li Bangfu [2621 6721 4395], is a man of integrity and works with selfless devotion."

Ma Shengli [7456 0524 0448], director of the Shijiazhuang Papermaking Factory, strictly enforced reform measures and achieved outstanding results. Some people wrote to him and informed him that the factory was under investigation and that more than 200 investigations had in fact been carried out. Ma Shengli not only remained undisturbed but contracted a further 20-odd papermaking factories in other provinces and cities and set up his own "China-Ma Shengli Papermaking Enterprise Group."

The successful experience of Ma Shengli, Li Bangfu and many other reformers tells us that while the support of one's superiors and a well-coordinated external environment are essential in reform, whether or not the reformers themselves have personal integrity and are honest in performing their official duties is also an important factor in the success or otherwise of the reform.

As the ancient Chinese saying goes: "One must not harbor evil intent against others, but one must guard against evil intent harbored by others." Ma Shengli altered this saying into: "Guard against oneself rather than others." There is no denying that there are critical, jealous and even malicious eyes around the reformers.

However, these only constitute the minority. The majority of them are trusting, supportive, expecting and friendly. Thus, while there is every need for the reformers to "guard against" people who avail themselves of loopholes to feather their own nests or harbor evil intent, we should, as Ma Shengli said, "guard against oneself rather than others." The reason for this is that only when the reform leaders have cultivated the spirit of boldly blazing new trails and making innovation and have developed the work style of honesty and self-discipline would they be able to win the admiration and support of the broad masses of cadres and the people. Only in this way would they lead the reform to success.

As far as the reform leaders are concerned, what "guard against oneself rather than others" means is that while carrying out reform and the open policy and invigorating the economy, they must first of all be able to withstand the corrosion of decadent ideas. If, unable to withstand the temptation of money and material attraction, they abuse their power to feather their own nests, or even indulge in fraud, tax evasion, speculation and corruption at the expense of the interests of the state and the consumers, they would become economic criminals who do harm to reform and the open policy. Li Chaolin [2621 6389 2651], deputy director of the economic committee of Maojian District in Shiyan City, Hubei Province, who was once a household name in the press, on television and on radio, was imprisoned for misappropriating public monies and goods valued at a total of over 60,000 yuan and for receiving as bribes high-quality consumer goods valued at over 20,000 yuan. Wang Jianhua [3769 1696 5478], director of a certain rubber factory in Shijiazhuang which he contracted, openly said the following when he assumed office: "Now that I have contracted the factory, I have power over the personnel matters, finance and operation of this factory. Everything I say goes in this enterprise and I am going to do what I think is fit." In less than 2 years, he had illegally taken possession of collective property valued at over 40,000 yuan and misappropriated 7,000 yuan of public money for his private business. A thriving enterprise was reduced to the state of near solvency and Wang Jianhua himself was caught by the long arm of the law and punished severely.

It is very important that reform leaders must "guard against oneself rather than others," be humble and prudent at all times, and maintain a clear head. As Ma Shengli said: "An entrepreneur may not be overpowered by heavy workload, but he may be by arrogance." When talking about his own successful experience, he said: "We must rely on the masses, the leaders and our own efforts. Without these three, Ma Shengli would have met his defeat long ago." He said this from the bottom of his heart. People who aspire to devote themselves to reform, particularly the reform leaders, should bear his words in mind.

'Red Sorghum,' A Film With Artistic Swaying Force

400502071 Beijing HONGQI [RED FLAG] in Chinese
No 6, 16 Mar 88 p 48

[Article by Wang Yunman [3769 0061 4915]]

[Text] The film "Red Sorghum" is about a legend which took place in the 1920s and 1930s in a north China village. The heroine Jiu-er was married off to a leprous brewery owner when she was 18 and later fortuitously found love in Tou-er the sedan-bearer. She later went through untold suffering under the local bandits and Japanese invaders. I was overwhelmed by an unusual artistic swaying force when I watched this film.

This artistic swaying force comes from two levels: First, in its own unique and penetrating manner, it has dug into an imposing and legendary episode of life; second, with its richly figuratively film language, it has created a unique kind of cinematographic beauty. What is more, these two levels are merged into one as the study of life and artistic expression are united at a higher aesthetic level.

Artistic truth can be in diverse forms. Many films about everyday life try to explore truth and beauty in the life of the ordinary people. This is one kind of truth. "Red Sorghum," told as a story about old grandma by the grandchild, unfolds on the screen a legend few of us have even heard of. That too is some kind of truth. People will not have any difficulty finding in the film the creativity and power of resistance of the laborers, as well as the congealing force of the nation.

We might say that the "worship" of primitive labor and way of life shown in this film has become a trend in many films produced in China and elsewhere. However, I think that what matters is not so much the theme and facade as the aesthetic sentiments and attitude of the directors. What "Red Sorghum" tries to do is to excavate from these antiquated and traditional modes of labor and ways of life the spiritual beauty and strength of those twisted souls who still retain their true color as laborers.

The scene in which people are busy brewing wine with sorghum is both imposing and majestic. In this series of shots, the director has made full use of a variety of artistic and characterization techniques. The audience is drawn into an atmosphere which shows great creativity by the macho and sonorous "toasting song," the solemn "sacrifice to the wine god" and the shooting of the labor scene from different angles. When the red sorghum wine brims over, the ecstatic look in the eyes and faces of the brewery workers spreads like infection among the characters. Such a labor scene is not only visually true-to-life but has great artistic appeal and impact.

The opening scene which features the bridal procession is also superb. This kind of treatment has been used before in Chinese operas, but there is something unique

about the treatment used in the film. To begin with, the treatment in operas is mimicry and impressionistic. Although the film shows some resemblance to this in form, its substance is based on customs and habits unique to the rural north. This conforms with the aesthetic requirements for realistic, visual and lifelike qualities in films. The interpersonal relationships, story line and mood which are to develop as the film progresses are first shown through this dramatic and funny scene. On the basis of the portrayal of real life, the film also makes a bold attempt at artistic creation by combining everyday life with dance. This scene lasts nearly 20 minutes, but the audience finds it too short rather than too long. It has truly combined entertainment with art.

The above episode and scene is of course very touching and wonderful. As a matter of fact, the whole film has shown a high standard of creativity in every respect, including its setting, atmosphere, color and details. For example, the endless stretch of the sorghum field shot with a dynamic long shot not only shows the environment and atmosphere but presents a lifelike yet artistic image that conveys feelings and messages. The artistic technique of conveying feelings and messages through scenery is made use of boldly and in an extremely imaginative way here. The basic tone of the field—red and yellow—gives this legendary story an imposing, pathetic and heavy touch while appearing heroic, majestic and filled with passion. This is particularly true when the hero sees his next-of-kin, working partners and the Japanese invaders getting killed before his very eyes. The flame of the explosion and the blood of his kinsmen make him see the whole world as blood red. The blood-red picture on the screen is the combined expression of true life and the frame of mind of the hero. This is very imaginative. The only drawback is that in terms of structure, the sudden change from wine brewing, establishing one's career and fighting against the local bandits to the anti-Japanese war seems rather unnatural.

"Red Sorghum" which has greatly excited the Chinese audience and the Chinese film industry has recently won the top prize—the Golden Bear Prize—at the Berlin International Film Festival. This is a sign that the Chinese film industry is becoming more and more mature and approaching perfection. The creative experience and artistic achievement of this film are worthy of attention and deserve to be studied in depth.

A Brief Discussion of 'Expected Value'

40050207m Beijing HONGQI [RED FLAG] in Chinese
No 6, 16 Mar 88 inside back cover

[Article by Zhao Ke [6392 2688] of the Propaganda Department, Jining City CPC Committee, Shandong]

[Text] The degree to which people's demand is satisfied may be conceptualized as the "expected value," the opposite of which is the "realized value." On the whole, it is by no means wrong to have expectations. Expectations which conform with reality constitute an internal

motivating force and can make people exert themselves. Expectations which are divorced from reality, however, may be demoralizing. How then should we fix the expected value and make it come closer to the realized value?

The expected value must be based on the possibility of realization. The report of the 13th CPC National Congress clearly points out that we are now in the primary stage of socialism. This thesis is the basis on which our party and government formulate their principles and policies. We must face the reality in China and must not expect something which cannot be realized at this stage. At present, some people are idealistic about reform, thinking that our reform would definitely succeed and would never fail, as if the fruits of reform are there at our fingertip. Our reform is a great undertaking never before attempted by our predecessors. There are no ready answers in books, neither can we mechanically imitate foreign models. There are bound to be setbacks, mistakes and disappointments in the course of practice. If we overlook this point, expected value would become "a castle in the air" and would lead people to fantasize, even grumble and complain, which is not conducive to the realization of expectations.

We should regulate the expected value in the relationship between different interests. The gradual deepening of the reform is bound to lead to the regulation of interests between different sectors of the community. Our reform will ultimately bring happiness and material benefits to each and every member of society. However, reform is also a very arduous and complicated social project and cases where gains and interests are not well balanced frequently occur. Some people may benefit first, some later. Some people may gain more, some less. Some people may benefit sooner in one area of reform but slower in another. Some people may temporarily lose some of their vested interests in today's reform, but they would be compensated in subsequent reforms. The constant regulation of these interest relationships may upset some people's mental stability; some people may become mentally unbalanced and consequently skeptical of reform because they are jealous that other people are getting more benefits than they do. If we wish to remove

this kind of skepticism, we must promptly readjust our expected value, suitably lower the inflated indexes, cultivate a new sense of value on the basis of reality and possibility, develop new codes of conduct and adjust to the new mode of life.

We should turn expectation into action aimed at speeding up and deepening the reform. Reform will no doubt bring about steady improvement in the people's livelihood. However, this kind of improvement cannot be realized through mere expectation. Rather, it is realized step by step on the basis of developing production. The accumulation of social wealth in terms of macroeconomics as well as the realization of personal value in terms of microeconomics have always been the results of hard work; this has been the case since time immemorial. Many people cherish the expectation of a wage increase. This is understandable. However, without a corresponding increase in labor productivity and material wealth, a wage increase is likely to lead to inflation, as a result of which everybody would suffer. Only when labor productivity is raised through people's hard work would a wage increase have a practical meaning. Only then would money have its corresponding substance. The basic line of the party at the primary stage of socialism clearly states that we must be "self-reliant and make an intensive, pioneering effort." This is a national spirit that every person who aspires to invigorate China must have. Thus, people who hope to improve their standard of living through reform must take reform as their own responsibility, share weal and woe with reform, and work hard and go all out in reform. They must not just take and do not give, just want benefits but not responsibilities, just want to sit in the shade but do not want to plant trees. Rather than adopting a wait-and-see attitude, why not rise and take action! Only when you have turned your expectations for reform into the driving force for expediting the reform and turned your demands on reform into actual practice in deepening the reform would you be able to appreciate the fruits of reform at long last.

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