

ECONOMIC PLANNING IN CHINA

How does the Chinese system of economic planning work?

Is it possible to have central planning without also having a crippling bureaucracy?

What lessons are there in the Chinese experience for other under-developed countries?

How could Western countries like New Zealand benefit from socialist economic planning?

THESE ARE SOME OF THE QUESTIONS DEALT WITH IN THIS BOOKLET.

GEOFF MASON has worked at various labouring and hospital jobs in New Zealand and the U.S.A. Active member of Christchurch People's Union, mainly in tenancy struggles. Completed degree in economics in 1973 and visited China in that year with a N.Z. students' delegation.

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BY
GEOFF MASON

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FOREWORD

At a time when the economy of every "Western" nation is desperately strained and its people are suffering, as ever, from the hardship, the unemployment and the inequities which constantly beset our economic system with greater or lesser viciousness — at such a time it is surely appropriate to look afresh at the economy of a nation which seems to have moved into a more rational and more effective way of ordering its daily life.

Those who have been able to see and study something of the New China speak with impressive unanimity and enthusiasm of the new society which its people have built. In this booklet the author tells something of how China is planning her economic life and relates this to the New Zealand scene.

The two countries are very different in size, in climate, in resources — our two peoples are very different in history, in background, in outlook. But the deep hopes and goals, the fears and concerns and loves of people everywhere are, basically, very similar. If we New Zealanders could share the motivations and aspirations which have enabled the Chinese to change so dramatically the face of their country and the lives of their people in 25 years we might too have made progress in one area where "Western" society has remained so painfully sterile.

I think this booklet is a very valuable contribution toward that end and the New Zealand China Society is proud to publish it.

C. R. HOWELL
NATIONAL PRESIDENT
NEW ZEALAND CHINA SOCIETY

AUCKLAND, NEW ZEALAND
SEPTEMBER 1976

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BY
GEOFF MASON

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INTRODUCTION: CENTRAL PLANNING / FREE ENTERPRISE

New Zealanders do not get much chance to hear positive things about central planning. These days we hear only criticism of state 'interference' in the economy. Government subsidies and regulations, price controls, the nationalised industries, even the existing network of Welfare State facilities, are accused of undermining individual initiative and economic rationality. These qualities, we are told, can only flourish under 'free enterprise'.

At the same time most of the loud supporters of free enterprise — businessmen, politicians, newspaper owners — have managed to gain or hang onto wealth and power under the present 'mixed economy'. Indeed, many businesses in New Zealand owe their existence to lucrative government contracts and various subsidies and export incentives paid for out of taxpayers' money.

This yearning for free enterprise can be compared with the often-expressed desire for a pool of unemployed in New Zealand. It all comes down to employers' dreams that New Zealand workers should be inspired to, simultaneously, work harder *and* restrict their wage demands in the face of continued rises in the cost of living: employers would like to be 'free' to enforce this supposed solution to the problems of the economy. (In fact restriction of wage demands is a double-edged sword for employers: their wage costs may be kept down but so is the consumer purchasing power — the total wage bill — which alone can pay for many of the goods they produce).

The Welfare State

The fact is: the majority of New Zealand people fought to have a Welfare State and supported the (total or partial) nationalisation of certain industries because, without government intervention, the majority of people had no chance of security in their age nor could they easily obtain decent housing, health care, transport facilities and other services — to see why, we only have to look at 'free enterprise' medicine in the U.S.A. where sick people have to show their ability to pay very high expenses before they can be admitted into most hospitals. Equally, without state aid many industries (such as forestry) might never have got off the ground and the economic theories of Keynes seemed to suggest that full employment could be maintained through high levels of government spending. *

So, there have been good reasons for the increasing government role in the economy. The only people who would gain from turning the

* See page 44 for further discussion of Keynesian policies.

clock back are the already rich and powerful who could survive best in a dog-eat-dog situation. But the positive aspects of state intervention have obviously not prevented increasing instability and injustice in New Zealand's present mixed economy, as examples on following pages will show. Furthermore, we do not get anywhere by dismissing the accusations of 'lack of initiative' and 'irrationality' out of hand. Throughout New Zealand society there is a genuine apathy and complacency which affects everyone, and people who are worried by this will naturally be drawn to the supposed virtues of free enterprise unless they can be convinced of a real socialist alternative.

If there is no motive of profit or necessity to work and produce, then the only other possible incentives to work are enjoyment in it for its own sake and/or a desire to serve the community well. What happens under a Welfare State, and in industries which are nationalised within a capitalist system, is that the incentives of profit and necessity are reduced or removed but, for most of us most of the time, no other incentive takes their place. We are left with a situation of 'public ownership without public spirit'.

Why Study China?

People's China is worth studying for this reason alone: more than in any other nation in history, there has been a mass breakthrough in social consciousness. Millions of people are motivated by a desire to 'serve the people'. Of course, not everyone has changed and perhaps in the future this spirit may wither and fade altogether, as it has done elsewhere, but for decades now it has grown and flourished. Whole new generations grow up in a society where they are *not* told at every turn "Look out for Number One!" as is the case in the Western world.

Central planning of the economy can only succeed where this kind of breakthrough in people's outlooks has genuinely taken place on a wide scale. The virtual absence of such change in social attitudes explains the defects of central planning in Russia (such as the creation of a new privileged elite and a profusion of bureaucratic red tape) which are held aloft by supporters of free enterprise as supposedly 'inevitable' consequences of planning. The Chinese experience shows that such consequences are *not* inevitable but, equally, they are enormously difficult to combat.

The 'Mixed Economy' in Crisis

The question then arises; if the difficulties are so great, is it worth fighting for socialism and a centrally planned economy at all? The answer now seems clear: the present affluence in New Zealand which

leads many people to say 'No' to this question is on the way out. 'As more and more of the former colonies of the Western powers get real control of their resources (either through socialist revolution or through organisations like OPEC), the original basis of Western affluence — access to cheap raw materials, cheap labour and captive markets — is being cut away. And with it go the wealthy markets for the agricultural exports on which New Zealand relies.

Furthermore, now that the long postwar boom has spent itself, no Western mixed economy seems any longer to be capable of achieving full employment without also creating severe inflation. Countries like West Germany and the U.S.A. with comparatively low rates of inflation today (6-8%, quite unacceptable 10 years ago) only managed this by putting the brakes on to the extent of millions unemployed. Any world 'recovery' can only bring runaway inflation. New Zealand itself is widely predicted this year (1976) to have the highest rate of inflation in the Western world *and* the highest rate of unemployment it has ever had since the 1930's Great Depression.

What we have in the present New Zealand mixed economy is a private sector motivated solely by profit and a state sector whose motivations range from confused to corrupted. Some consequences of this chaotic situation can be seen from the following examples:

- up to \$120m. worth of unsold, empty houses (1)*, existing side-by-side with homeless families and families spending up to 2/3 of their incomes on rent, unable to get finance to buy homes
- reports that almost 20% of school-leavers were unable to find jobs this year (2)
- tax-payers' money is used to subsidise private hospitals while the under-financed public hospital system is allowed to run down (3): New Zealand has trained medical staff who are unemployed and there are long waiting lists for patients needing surgery
- in a country based on primary exporting, farm investment has been relatively low ever since 1966-67, and has in many years declined, with a consequent stagnation in agricultural production (4)
- extensive import controls have been employed to encourage New Zealand industrial development. The result has been to encourage *foreign* investors to either set up factories in New Zealand or license local manufacturers to supply the captive New Zealand market: these firms send profits back overseas, pay as few taxes in New Zealand as possible and have little interest in exporting (5)

* References can be found at the back.

- government measures to control bank lending and attempts to keep rates of interest low have been defeated by the so-called "ingenuity of private enterprise" (6). Credit flows have shifted to uncontrolled financial outfits such as finance companies and merchant banks who charge very high rates of interest (7)*

Need for Real Planning

Where such irrationality affects profits, businessmen and bankers are loud in calling for either state aid or an end to state intervention, whichever way suits them best. Considerable lip-service is now also paid to the need for state-sponsored 'forward planning'. However, past attempts at planning have not achieved much: the former National Development Conference contributed little else besides a list of hopeful predictions, most of which have not been borne out by events.

Real planning involves not only setting targets and priorities for economic development but also seeing that, as far as possible, the plans are carried out. This is next to impossible in a private enterprise economy. As the above examples show, even attempts by New Zealand governments just to influence the economy have frequently been frustrated by private decisions based on the profit motive.

Yet, without planning the real interests of the majority of people will not be served. So long as production is for private profit and not for social use, we will be infested with property 'developers' and glorified money-lenders who fuel inflation and contribute nothing, while businessmen will go on producing rubbishy foods and goods designed to fall apart. Now that even the best parts of the Welfare State are under attack, our only alternative is to organise to overthrow the present capitalist system and build a socialist system where real planning is possible.

This booklet is an attempt to provide a concise description of how the Chinese planning system works. Why then so much discussion of New Zealand in this Introduction? Because, from China we can learn how central planning coupled with rejection of the profit motive has succeeded in solving problems and making vast social progress in a country which was once as poor as India. Obviously China's problems (and potential methods of solution) are very different from those in a small, economically advanced country like New Zealand. Yet the broad principles of Chinese experience are relevant to people in New Zealand as in other countries. In particular, study of China gives hope that whatever social problems and injustices a country has can be defined and genuinely attacked through socialist economic planning.

* See the section beginning page 35 for comments on the recent changes in New Zealand's financial sector.

CHINESE DEVELOPMENT SINCE 1949

In 1949 a People's Government took power in China after decades of struggle. The war against the Kuomintang and all foreign invaders was won by the great majority of Chinese people uniting behind the leadership of the Communist Party.

This same combination of forces has since, in striving towards socialism, achieved what the American economist Jack Gurley describes as "an economy richly endowed with natural resources, but whose people are still very poor, making substantial gains in industrialisation, moving ahead more slowly in agriculture, raising education and health levels dramatically, turning out increasing numbers of scientists and engineers, expanding the volume of foreign trade and the variety of products traded, and making startling progress in the development of nuclear weapons". (1)

The First Eight Years

The first priorities of the new government in the war-torn country were to feed everyone and to develop industry.

Between 1949-52 vast land reforms redistributed the estates of landlords and rich peasants in areas which had not been liberated before that time. For some time most peasants worked as small owner-cultivators. The advantages of cooperative farming were shown by mutual-aid teams which consisted of a few households combining their labour-power and sharing draught animals and tools. By 1952 over 40% of households were members of such teams.

In this period the state took over the 'commanding heights' of the economy such as banking, trade, railways and steel. All 'bureaucrat capitalists' (those allied to foreign interests) were taken over straight-away. However, an attempt was made to 'unite with, criticise and educate' the 'national capitalists' (smaller independent businessmen), whose skills were needed, and to absorb them gradually into the state sector rather than take them over immediately. At this time the government set up joint state-private enterprises (later to become state-owned) and created completely state-owned capital goods industries (machine-building etc).

Between 1953-57 mutual-aid teams were developed further into agricultural producers' cooperatives. This pooling of land allowed people to work on irrigation projects, terracing and large-scale tree planting which had been impossible when each peasant family owned a separate plot of land. At each new stage of cooperation in the country-

side, former land-owners and rich peasants attempted comebacks but their sabotage was put down by the great majority of poor and middle peasants under Communist Party leadership. The shortcomings of individual ownership were clear enough in a country with less than half an acre of usable land per person. (2)

By 1957 all remaining private industrial and commercial holdings had been turned over to the state in return for government bonds bearing 5% interest.* Industry made great progress in these years: in 1949 more than half of city workers in China had been unemployed but by 1958 there was full employment as there has been since. (3) The economy also reaped the benefits of the great efforts put into improving health and education.

However, during these years certain mistakes were recognised in having followed Soviet economic policies too closely, in particular the relatively low rate of investment in agriculture and the extent to which detailed economic decisions had to come down a chain of command from ministries in Peking. Thus, by 1958, control of much industry had been decentralised (that is, taken away from administrators in Peking, the 'centre') and heavy industry was no longer being developed at the expense of agriculture and smaller-scale industry.

Great Leap Forward

1958 saw the Great Leap Forward when the rural cooperatives merged into People's Communes, approximately 70,000 in total combining 750,000 production teams or villages. (4) The communes were made responsible for education, health and defence as well as production, and they enabled even larger projects for water conservation and reclamation of previously useless land to be organised. The policies of the Great Leap were aimed at stepping up the pace of development, especially through cutting down under-employment in the countryside and encouraging work for the social good rather than for individual gain. The industrial policy of 'walking on two legs' was widely introduced, at this time mainly encouraging the simultaneous use of modern methods and the practical technical experience of local people.* On the communes peasants were mobilised to employ local raw materials and funds in setting up new small industries without benefit of massive state investments.

Much has been made in the West of the 'disasters' of the Great Leap Forward, for which there is some justification: rural labour was

* These bonds were finally redeemed in 1968.
See section on 'Walking on Two Legs', p. 24

diverted from agriculture at the height of the harvest, growth statistics were often exaggerated at local level and by no means all the new small industry and water control construction was successful. Some changes in agricultural organisation were imposed 'from the top down' by local Party leaders and had to be corrected because they did not correspond with most peasants' wishes and understanding at the time, for example, the virtual abolition of the small private plots of land belonging to each household and the direct transfer of funds and means of production from ownership by the cooperatives to ownership by the much larger communes. (5) *

Nevertheless, the achievements of the Great Leap cannot be denied. Two Australian economists, E.L. Wheelwright and Bruce McFarlane, suggest that the low-quality and inefficient 'backyard' iron production of this period, which has been especially condemned in the West, was a short-lived exception to the general rule of progress: e.g. new savings in construction and operation costs in commune small industry, reduction in transport and supply bottlenecks and the discovery of many new techniques. (6) This positive appraisal has been confirmed by a French writer Jean-Pierre Brulé. (7) Small-scale industry made use of local initiative and scattered raw materials and did not conflict with continued development of large industry. In fact, 18 years later, the simultaneous balanced development of small, medium and large industry is still the essential aim of industrial planning.

1959-61 were crisis years. The blame for this can be put on natural disasters, the sudden withdrawal of Soviet aid in 1960 and the mistakes and organisational problems in the communes. Yet the new commune system helped avoid famine in these years when nearly half the cultivated area was affected by floods or drought or pests. (8)

'Profits in Command'

By no means everyone in China had agreed with the policies of the Great Leap Forward. Because of the agricultural shortages and planning disruptions in 1959-61, supporters of the view that profit incentives were necessary to increase production gained ground. There arose a virtual 'New Economic Policy' with greater scope for market forces, extension of the private plots on communes and heavy reliance on material incentives (bonuses, prizes etc.) to encourage productivity in manufacturing. Within enterprises there was a shift from output targets to profit targets and from control by trade union and Communist Party committees to control by managers, professional staff and technicians.

* The basic ownership and accounting unit on the communes is now usually the production team.

The clear result was that, in the early 1960's, China was becoming very much like Yugoslavia with enterprises competing with each other in a thoroughly capitalist manner. Output recovered by 1963 and the economy began to move ahead again, but this was only partly due to the New Economic Policy. Wheelwright & McFarlane mention also gains from investment projects started in the Great Leap Forward, improvements in the tax system made in 1958 and the large investment in education and health made in the 1950's. (9) However, a *direct* result of the New Economic Policy was a growing privileged elite of managers and professionals, technicians, rich peasants and some Communist Party 'cadres'* who abused their positions.

In universities, factories, communes and neighbourhoods, in the People's Liberation Army and at every level of the Communist Party, criticisms began to be levelled against this new elite and against all policies and actions based on 'profits in command'. In the leadership Chairman Mao decided to break with the Party Vice-chairman Liu Shao-chi who, he felt, bore the ultimate responsibility for China's turn away from socialism. In 1963 he and his supporters launched a Socialist Education Movement (mainly in the countryside and in the Army) which was designed to build up socialist consciousness – this campaign was badly undermined by Liu and his supporters. However, the slogans 'Learn from Tachai' (in agriculture) and 'Learn from Taching' (in industry) became immensely popular, praising work done to 'Serve the People' rather than for individual gain.** Gradually large sections of workers and students became convinced of the dangers of the new elite and began to speak out and make criticisms.

Cultural Revolution

By 1966 the conflict was right in the open and China was gripped with Cultural Revolution. The nature of the upheaval was not immediately clear to everyone involved, amidst general ferment of ideas and disorder, strikes and mass demonstrations, schools and universities closed down. However it began to be seen that the direction of China's future was at stake: either back towards capitalism (as had happened in the U.S.S.R.) or forward towards socialism. A Central Committee decision of August 8th, 1966 said: "Trust the masses, rely on them and respect their initiative. Cast out fear. Don't be afraid of disturbances."

* 'cadres': according to one useful account, this much-used word is used in two ways in China, to describe (i) someone who holds a responsible position – anyone who is a leader (ii) an administrator supplied to a factory or a commune by the state. The vast majority of cadres are Communist Party members, but by no means all Party members are cadres. (See Janet Goldwasser & Stuart Dowty, "Chinese Factories are Exciting Places!", p.2.)

** The Tachai Production Brigade and the Taching oilfields are spectacular examples of hard struggle and self-reliance, the successful development of barren or desert regions without having to ask for state assistance.

All over China people set out to examine and criticise different policies put forward since 1949 and the way these policies had or had not been put into practice. They got themselves organised to seize power from 'those in positions of authority taking the capitalist road' who would not reform themselves. These 'capitalist-roaders' did not give up easily: they resorted to large-scale bribery and organised strikes and demonstrations, deliberately sowing confusion. In many disputes both sides were armed and Army intervention was needed to defuse the situation. Across the country there were thousands of incidents involving beatings of captives and serious fighting between different factions. The prestige of the Army (under strict instructions from Mao and his supporters to avoid force where possible) played a large part in preventing the outbreak of prolonged civil war and enabling new forms of government to be established: the revolutionary committees. (10) *

With order restored, the main result of the Cultural Revolution has, so far, been a great setback for 'revisionism', the conscious or unconscious desire to restore capitalism with policies based on the profit move.

Revolutionary Administration

By 1969 revolutionary committees had taken over from bureaucrats in the administration of provinces and cities, factories and communes, neighbourhoods and institutions: they were based on '3-in-1' alliances of revolutionary Party cadres, representatives of local Army units and delegates elected at mass meetings (that is, meetings of all the people concerned e.g. all the workers in a certain hospital or factory, or all the residents in a certain neighbourhood). (More recently factory revolutionary committees consist of workers, cadres and technicians, with the P.L.A. playing a less formal role). Revolutionary committees are now also based on a 3-in-1 age-group combination of young, middle-aged and older members.

Unlike many permanent bureaucrats in the past, the revolutionary committees have set about organising production and social services in ways that try to serve all the people and not just a privileged few. They follow Communist Party policies directed at destroying the 'three great differences' inherited from the old society: the differences between town and country, industry and agriculture and mental and manual labour.

In the famous Anshan Constitution published in 1960, the 'two participations' approach – participation by political cadres in production

* Industrial output was more seriously affected by the Cultural Revolution than agriculture, falling by 15-20% in 1967. Yet a French journalist Jan Deleyne writes: "The drop in production is generally agreed to have been relatively slight, given the bitterness of the political struggles." (Deleyne, *The Chinese Economy*, p.139)

and by workers in management – was put forward, but until the Cultural Revolution it existed only in theory. (11) Now the 'two participations' are in full flight. Office workers, political cadres, teachers and managers do regular manual work, both in industry and in the countryside. The exciting results of worker participation in problem-solving and decision-making are described in following pages, along with the role played by the revolutionary committees in the planning process.

ECONOMIC PROGRESS SINCE THE CULTURAL REVOLUTION

Percentage increases in output 1964-74

Steel	120%
Petroleum	650%
Chemical Fertiliser	330%
Cotton Yarn	85%
Coal	91%
Electric Power	200%
Tractors	520%
Chemical Fibres	330%

Source: China Council for the Promotion of International Trade, 1975.

'THE MOST POWERFUL PRODUCTIVE FORCE'

Mao Tse-tung wrote in 1957: "It is sheer fantasy to imagine that building socialism is all plain sailing and easy success, without difficulties and setbacks or the exertion of tremendous efforts". (1) Difficulties and setbacks are inevitable for three main reasons:

- the initially backward nature of the economy
- the persistence of feudal and capitalist habits and attitudes
- not all people opposed to socialism are reconciled to their defeat

Class Struggle under Socialism

It is now clear that when a working-class party takes power in a country, this is not the end of struggle between the different social classes. It is not enough for the means of production to be taken away from the former private owners and to be declared state property. Working people have to repeatedly struggle to increase their actual control over the conditions of production, that is, the relationships

between managers, technicians and workers on the job, the making of decisions which affect the lives of the vast majority of ordinary people. Without such struggle there is every chance that a new privileged ruling class will organise itself and bring about the restoration of capitalism (as has happened in the U.S.S.R.) In China there are several elements in the society capable of forming such an elite if the masses of workers and peasants were to sit back and let them:

- members of the traditionally well-educated classes
- the families of former landlords and rich peasants
- managers, bureaucrats and cadres corrupted by power
- conscious 'revisionists' who think only of the short-term and believe the individual profit motive is the only incentive that people will respond to

Both the Great Leap Forward and the Cultural Revolution have served to try and maintain the *direction* towards socialism in China, to create the conditions for a widespread change in people's outlooks away from self-interest, to stimulate workers' and peasants' initiatives and to undermine the growth of a bureaucratic elite. *The aim has been to reap the benefits of a centrally planned economy* (rational use of resources, decisions based on social priorities rather than profit requirements) *while trying to avoid its potential 'Russian-type' defects* (privileged elite, red tape, apathy, bottlenecks, low quality products).

There are many 'China-watchers' in the West who never tire of referring to "the failures of the Great Leap Forward" and "the excesses of the Cultural Revolution", as if such phrases sum up all that needs to be said. Yet the undeniable *advances* made in China have come about precisely because Chinese revolutionaries have been equally determined to identify failures and excesses (when they occur) – *and* to correct and learn from them.

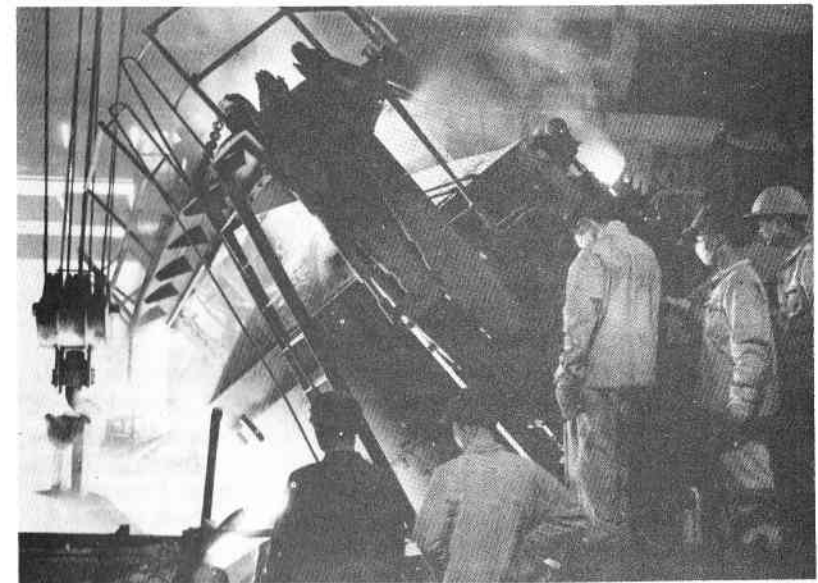
The Release of Initiative

Western 'experts' also get upset about the supposed lack of 'entrepreneurship' in underdeveloped countries. Asian and Latin American peoples are said to lack initiative and the risk-taking ability which is alleged to be the basis of Western prosperity. This nonsense has been well refuted by Paul Baran who pointed out that countries like India (and pre-revolutionary China) "swarm with scheming, contriving, risking and sharply calculating entrepreneurs bent on combining resources to their best advantage, determined to maximise their profits within the framework of existing opportunities". (2)

Comparison of China since 1949 with India since its so-called 'Independence' in 1947 shows how much greater and more useful



Problem-solving on the factory-floor: Boiler Factory workers discussing new techniques of bending pipes.



Electric furnace at Shanghai's No. 5 Steel Plant.

initiative can be released by revolutionary change in "the framework of existing opportunities".

Similar reasoning explains why the 'theory of productive forces', supported by Liu Shao-chi and other revisionists, is so heavily criticised by Chinese revolutionaries. According to this theory, socialism can only be built once capitalism has been fully developed and productive forces have been developed to a very high level. Thus the main task is said to be increased production stimulated by the profit motive. This theory is denounced because it thinks of productive forces as consisting solely of physical means of production plus techniques, whereas "to deny the human factor is to deny the most powerful productive force". (3)

If conditions are right, there is no limit to the energy and drive of the people. With landlords and bosses deprived of their power, people know their hard work will benefit the community rather than the pockets of a minority of employers. As a result of continuing struggles against elitist managers and bureaucrats who try to give orders 'from the top down', workers can start to take a real interest in their

HEALTH & LITERACY

Before Liberation in 1949, China was racked with famine and disease. There was an almost complete lack of sanitation and the majority of people lived on the fringe of starvation: in 1935 the average life expectancy was estimated to be only about 28 years. The population was also 90% illiterate. Today it is a different story. (1) The new health and fitness of working people has been essential for the economic advances made in China since 1949.

Mass Campaigns

In the early 1950's diseases and unhygienic habits were fought through nation-wide sanitary campaigns: these were organised in every village and city neighbourhood by '3-in-1' combinations of leading cadres, medical workers and local people. Certain pests (like rats and mosquitos) were virtually wiped out. Victims of diseases were isolated and treated while other people received vaccinations to prevent disease. These successful campaigns were combined with great increases in hospital beds and trained medical staff. (2)

In the same way mass literacy campaigns for adults were organised in addition to providing all children with access to formal education. Peasants set up special schools in winter to learn to read and attended evening classes. Factories set up literacy classes and spare-time schools. Those who could read and write taught those who could not. (3) As in health work, knowledge was now to be shared, not held in the hands of a small elite for their own profit. This principle has

jobs. Their opinions count. They are free to make unpleasant work as congenial as possible. If workers find ways of improving the quality of their products, there is no problem about a slump in demand for replacement of the products. If they succeed in making their jobs more efficient or even in mechanising them out of existence, there is no risk of making themselves or their co-workers unemployed as a result. When managers and cadres do regular manual work, it teaches them about conditions on the job and helps prevent them looking down on workers.

Such changes in the conditions of production have led to a new world of enthusiasm in Chinese industry and agriculture since the Cultural Revolution. According to the French economist Charles Bettelheim, the Chinese economy is now experiencing "a new kind of technical progress which is no longer limited and conditioned by capital . . . a process of mass innovations and renovations . . . In visiting Chinese factories, one notices that production growth is no longer closely dependent on the amount of (physical) investment". (4) Clearly the 'human factor' is already showing its power. *

* See the section on 'Problem-solving in Industry', p. 32

been more fully put into practice since the Cultural Revolution. (See page 33 for discussion of the new 'workers' colleges').

'Skills rather than Credentials'

The willing spread of knowledge since the Cultural Revolution is also well shown by the new stress placed on rural medical care. Tens of thousands of roving medical teams have been into the countryside to treat and help prevent disease and to train rural medical workers (the 'barefoot doctors'). With a few months of training, 'barefoot doctors' have been able to combine normal work on their communes with routine medical care and continued study and training. At other times they travel from village to village giving inoculations and suggesting improvements in sanitation and hygiene. Outbreaks of disease can be checked before they start. Today there are 1,300,000 'barefoot doctors' who work in with first aid workers, midwives and fully-trained doctors. (4)

Through careful planning, routine medical care is available on the spot virtually in all places of work and residence — in communes, schools, factories and neighbourhoods. More serious illnesses and injuries can be immediately transferred to a hospital equipped to deal with them. This ready availability of medical care is in complete contrast with many other underdeveloped countries where a small number of doctors are trained to a very high level, only to be lost to high-paying jobs in Western countries.

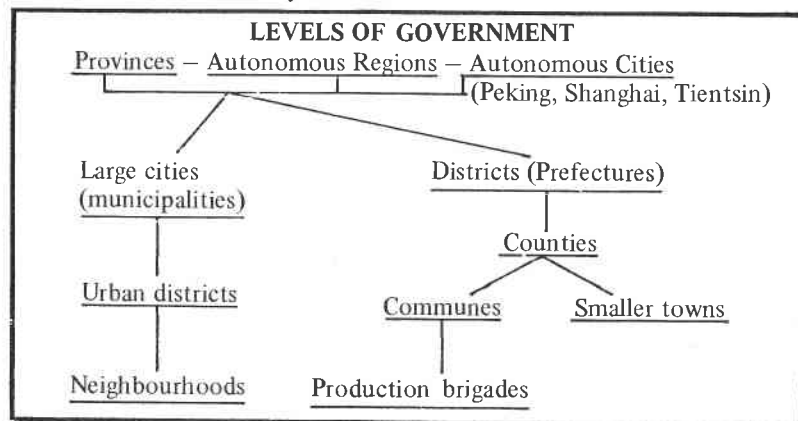
CENTRAL PLANNING, DECENTRALISED CONTROL

China has now developed its own methods of planning, after learning from mistakes made in copying the tightly-controlled Soviet system. For much of each year, while that year's plans are being carried out, wide *consultations and discussions* are taking place to work out the next year's plans. Joan Robinson writes: "A plan made in consultation with those who undertake to carry it out can set much higher targets than bureaucratic methods would ever permit, with much greater assurance that they will ever be achieved." (1)

Furthermore, within the context of a unified national plan, emphasis is placed on regional and local *self-reliance* to the fullest possible extent. Provinces, counties, communes and enterprises are encouraged to produce and cater for as many of their own needs as they can (including raw materials and components for industrial production). Regional self-sufficiency is made necessary by China's vast distances and its still inadequate transport and communications system. It is further encouraged for the important reasons of military defence ability and greater scope for local initiative and 'grassroots' democracy (people controlling the basic decisions which affect their lives).

Government Structure

We have seen how, since the Cultural Revolution, China has been administered by revolutionary committees, usually consisting of cadres, soldiers from local Army units and delegates elected by the masses. The official task of the revolutionary committees is to carry out policy decided by the Communist Party, that is, in economic matters, the priorities which are to be served by central planning. Party members are selected by local Party branches following discussion within each branch and amongst the applicant's fellow workers. There is now at every level of government a Party committee (selected by Party members only) and a revolutionary committee:



The revolutionary committees do not meet continually; they have standing committees (many of whose members will also be in Party committees) to put decisions into practice and at the higher levels they employ administrative staff. A provincial revolutionary committee, for instance, is served by departments concerned with the following aspects of the national plan: agriculture, industry, communications and transport, commerce, capital construction, labour, finance and education, culture and health. It is up to the members of revolutionary committees (and the workers and peasants to whom they are responsible) to see that the 'civil service' serves the people instead of dictating to them. (2)

The Process of Consultations

In each province planning consultations take place between revolutionary committees from all levels.* (The province itself is responsible to the national Planning Commission in Peking). For instance, most communes consult with their county revolutionary committees (or, if near a city, their municipal revolutionary committees) who have received preliminary estimates of production requirements passed down through district and provincial levels. A commune then takes suggested plans to its production brigades who divide them up amongst their production teams. The brigade proposals are thrashed out at full meetings of each team: there peasants decide how much of each crop they can produce and how much they will need to keep for their own consumption. They also have to balance off their production of main crops and tree-planting with sideline occupations (pigs, chickens etc.) which bring in cash incomes.

After discussions between each team and its brigade about necessary changes in the plans, their assessments are discussed further with their commune and then passed up to the county or municipal revolutionary committee. At each stage of planning the people involved are expected to do their level best to match or even exceed the initial estimates which have been handed down to them. (3)

Factories decide their output plans by consultations and discussion, both within their own work-force** and with their next highest authority, which varies depending on the nature

* Apparently the functions of a revolutionary committee at one time and place may sometimes be assumed by a Party committee at another time and place. Like everything else, many planning practices vary from place to place and change over time. Hence, available information on China often seems contradictory on questions of detail like this, adding to the difficulty of writing any general account such as this booklet.

** See section on p. 22 "Planning 'from the top down & from the base up' "

and importance of their production. Widely dispersed products (farming implements, daily necessities) are planned at the district level. In 1957 80% of the previously centrally-controlled enterprises were transferred to provincial authority in order to loosen up on bureaucratic control, while the national government retained control over major producer goods' industries. Since 1970 there has been still further decentralisation of management of heavy industry: some large enterprises are now wholly controlled at provincial or municipal level, while others (such as the Anshan Iron & Steel complex) are under the 'dual leadership' of the relevant Peking ministry and local authority. (4)

Central government ministries now have sole control only of railways, shipping, civil aviation, part of the telephone and telegraph system, and a small number of important factories (presumably including defence production). Taking a major shipyard as an example, state planners seek agreement on the following economic targets each year: type and model of vessels, total tonnage, quality, labour productivity, consumption of main materials, cost and profit. (5)

As in the consultations to do with agricultural production, proposals of what is practical and what is desirable are tossed back and forth by industrial workers and planners until suitable figures for production of finished goods and consumption of raw materials are agreed upon. Workers from consumer goods' industries engage in substantial public enquiries to find out what people's needs are.

The National Plan

Once a year representatives from all provinces take the results of their various consultations to the Planning Commission in Peking; computers are used to collate all this data. At this level final decisions on the major aspects of the national plan are made. Each province suggests schemes of investment which have to be rationed out according to the prevailing Five Year Plan. The Five Year Plans are much less detailed than the annual plans — their purpose is to provide general guidelines for the growth of essential types of production. A major priority is the development of the hinterland and the diversification of industry in all regions.

To this end, revenues collected by each province, municipality and autonomous region are subject to redistribution after discussions with central government planners. The more developed provinces give up a large share of the revenue they collect while the poorer provinces and autonomous regions keep all of their revenue and receive further subsidies from the central government for investment and social welfare purposes. For example, expenditure in the relatively prosperous provinces of Kiangsu and Liaoning and the municipality of Shanghai

in 1972 was only 33%, 18% and 10% respectively of planned income; on the other hand, more than 50% of total expenditures in Tibet since 1960 have come through central subsidies. (6)

All main crops — grain, vegetable oil, sugar, tobacco and cotton — are dealt with under the national plan. This plan indicates the quantities of each which surplus provinces are expected to supply to deficit provinces. Similarly, within each province districts have commitments to each other. "As the year goes by, successes are balanced against failures at each level: commune, district and county. The leeway in one plan can be used to offset a deficit in the fulfilment of another. Apart from very severe natural calamities, the province as a whole is expected to fulfil its plan. The surplus it has agreed to hand over is the first priority; a short-fall has to be met by economising on consumption. Excess production may be utilised within the province, added to stock or put at the disposal of the centre . . . At the same time deficit provinces are strongly urged to increase production". (Robinson) (7).

Production for Social Use: Working Out the Details

After the big meeting in Peking, the previous consultations within each province and each district take place again, this time to arrive at final production and distribution plans in detail. Agricultural and industrial workers have previously contributed, through their revolutionary committees, their opinions as to what should be produced and in what quantities. Now they are concerned with how the *agreed requirements* of the national plan should be divided out within their regions and, once this is decided, how they are to meet their own commitments. For instance, at the level of production teams: "Once the planned output has been agreed, the full team gets down to the task of deciding on how to utilise each parcel of land; which crops to sow, outputs to be reached, technical measures to be taken, the nature and quantity of fertiliser to be used and the types of seed to be sown". (Roland Berger) (8).

With production targets now set, enterprises in each province are allocated a certain number of workers, technicians and cadres and a certain amount of capital funds (including the wage fund they will need and a welfare fund usually equivalent to about 11% of total wages). Under special circumstances they can borrow more funds from the state bank if this becomes necessary. State enterprises cannot hire or transfer workers on their own initiative. They are also told the prices of all materials and products — these are not under their control. (9) Selling prices include a set proportion for profits. Hence the efficiency of an enterprise is better judged by its ability to economise and cut production costs than by its level of total profit. Enterprises choose which goods

to produce on the basis of their capabilities and the needs of the state plan, *not* the profits to be made from each type of good. * No one in any enterprise is affected by profits being great or small because all profits made by state enterprises are transferred to the state.

Each year when the requirements of major enterprises have been settled at provincial level, they send representatives to a meeting of enterprises in the same industry from all over the country to co-ordinate their plans with each other. (10) In co-ordinating the balances on paper between supplies of raw materials and final output targets, *leeway* is always left for overfulfilment and adjustments for any short-falls as production goes on. Discussing this leeway allowed in plans, Joan Robinson writes: "There is evidently a certain element of hit or miss in this style of planning. At the present time (1972), capacity to produce iron and steel is ahead of the flow of ore from the mines . . . (Nevertheless) whatever may be the defects of this loose-jointed style of planning, it is certainly found to be a great improvement on the tight planning which China at first imitated from the Soviet Union". (11)

Since 1959 provincial authorities have been allowed to reallocate resources within the limits of the state plan even if such resources affect centrally-controlled enterprises. This is most important to ensure unified planning at the regional level. For instance, overlapping between centrally- and locally-controlled networks for supply of raw materials has been greatly reduced compared with the early period of tight control by Peking ministries. Local labour bureaus are now better able to co-ordinate the supply of labour in their administrative areas. In these circumstances local authorities are in a position to arrange close co-operation between production units in their areas with a view to regional self-reliance. (12)

A Minimum of Bureaucracy

The Chinese system of planning depends entirely on the strength of the social ethic 'Serve the People'. Workers' control in each place of work is essential but it is not enough by itself. For 'decentralised' control to be combined with economic planning, each enterprise and rural production team has to subordinate its own interests to overall interests as spelled out in the plan.

* This is a great advance on the revisionist policies of 'profit in command'. One example: "prior to the Cultural Revolution, (a certain) steel plant maintained a principle of rejecting any order for goods difficult to produce, required in small quantity or yielding low profits. Once a local factory placed an order for a certain kind of urgently needed wire which was difficult to manufacture. The order was rejected because some leaders of the plant were afraid the enterprise might incur losses. As a result the local factory had to turn to another place thousands of kilometres away" (*Peking Review*, 23/4/76).

Such a breakthrough in social consciousness has only been made and strengthened through decades of struggle and organising to defeat capitalism, to show the benefits of socialism for the vast majority of people and to prevent the restoration of capitalism and policies based on the individual profit motive. Without the 'Serve the People' ethic, planning can only be organised by bureaucrats giving out detailed orders far and wide and then having to check they are obeyed. In Russia and Eastern Europe such bureaucratic control has led to massive apathy and frustration, to the extent that authorities in those countries have resorted to profit incentives – paving the way for the irrational and undesirable social consequences of profiteering which good central planning can prevent.*

* Leo Goodstadt, a 'China-watcher' on the *Far Eastern Economic Review*, makes an interesting comparison between China and the U.S.S.R. Amongst other things Russia has suffered from poor-quality products in its 'planned' economy because of apathy and profiteering. For example, a factory with a target of a given quantity of nails may well save money by making the nails as small as possible, regardless of what is needed. However, in China with its policy of each region being as self-sufficient as possible, "If a region is forced to consume the defective products it permits its industries to turn out, the local authorities are soon compelled to end such costly abuses". (Goodstadt *Mao Tse-tung: The Search for Plenty*, p. 77).



Discussing improvements needed in a new farm implement used for pulling rice seedlings.

PLANNING 'FROM THE TOP DOWN & FROM THE BASE UP'

The journalist Jan Deleyne poses this question about central planning in China: "The Plan is not imposed by the supervising authorities without previous discussion. It is the fruit of consultations between the higher and the lower levels, and takes account of the conditions specific to each unit . . . But how is one to know in what way the compromise is reached between the base and the summit, and who makes the greatest concessions?" (1)

Most accounts available of planning compromises between "the base and the summit" tell stories of difficulties overcome through struggle. For instance, the 1971 production quota of the Shenyang Transformer Factory: state planning agencies and the factory Party committee arrived at a total output of 12,000 units of production for the year which was then broken down into a specific figure for each workshop. These figures were discussed by workers who broke them down further for sections of each workshop. In this way they could see what the plan would mean for each job in the coming year. As a result they eventually criticised the leadership for aiming too low. After discussing alternative suggestions, a new target of 14,000 units for the year was agreed to — this still fitted in with the available raw materials under the state plan. (This new target was actually reached ahead of time). (2)

Further examples: — in 1973 state planners wanted the Talién Hungchi Shipyard to produce a 24,000 ton tanker within 18 months. The workforce was divided on whether this was possible because the yard was only geared to making 10,000 ton vessels. However the majority of workers were in favour of taking the order. In the event, apparently, their enthusiastic approach to solving each new problem as it came up enabled them to launch their first 24,000 tonner in only 8 months. (3)

— on the Yangtan Commune (Shensi) a production brigade recommended to one of its teams that it reduce its area under wheat and step up its production of cotton. The team would still have had enough wheat for its own consumption and an increase in cotton meant more cash income. However the team realised the country needed more grain, not less; after much debate the problem was resolved: the team agreed to replace some of its area under wheat with more cotton while at the same time increasing the wheat yield by using more pig manure. (4)

Obviously there must be some planning decisions which are not so happily reached as in these three examples. In some factories and communes, a majority of workers may well be disinterested or lacking in confidence and local cadres may be unable to grapple with the problem — the cadres may even be the cause of the problem. Where political consciousness is low, cadres may take the easy way out of any problem: Goodstadt mentions cadres who lie about production results in order to put up a good front or take no notice of campaigns to economise on funds and materials. (5) We also know of Chairman Mao's remarks to Edgar Snow in 1965 that some village communes might be failing to register deaths in order to continue using dead people's cotton-cloth rations and to retain more of their harvests for home consumption. (6)

However, shortcomings exist to be identified and corrected, the more readily since the Cultural Revolution created new potential for mass participation in decision-making and mass supervision of cadres and managers. *The only explanation for the recognised economic achievements of the Chinese people is that determination to 'Serve the People' is widespread and that willingness to overcome difficulties for the sake of the socialist planned economy is high.* This is to be expected in a country where the great majority of people have fought hard for socialism and where workers' and peasants' opinions really count in working out the central plan.

Many people look at the Russian experience and conclude that people have no incentives to work well in a planned economy of any kind. Harrison Salisbury of the *New York Times* had this to say, however, after his first visit to China (May 1972) and his first investigation of a People's Commune: "And here, of course, was the dramatic difference between the Liu Ling Commune and any Soviet collective farm I have ever visited. In 25 years I had never visited a Soviet collective farm that was directed by a man who had been resident on the farm or a resident in the area for 10 years — let alone 20. I had never visited a Soviet collective farm that was not told by the regional centre (which, of course, had been told by Moscow) precisely what crops to plant, where to plant them and when to plant them. I had never seen a Soviet agricultural endeavour where the men and women living on the spot were permitted to run their own affairs because they were known to understand local conditions better." (7)

'WALKING ON TWO LEGS'

One very important priority which can be fostered through central planning is balanced development. Chinese writers talk about 'cycles of mutual stimulation' in the development of the economy. For example, industry and agriculture are developed simultaneously in such a way that they coordinate with and promote each other, rather than conflict with each other for scarce resources. Other relationships developed in this way ('walking on two legs') include those between

- heavy industry and light industry
- large enterprises and medium-to-small enterprises
- modern production methods and indigenous methods
- enterprises run by the central government and those run by local authorities

Agriculture & Industry

Since the 'lean years' of 1959-61, a General Policy "*Take agriculture as the foundation and industry as the leading factor*" has been followed in economic planning. This policy recognises the fact that 80% of China's population lives in the countryside; it was an important departure from the 1950's policies which put most stress on large-scale industry of the Soviet type. Making agriculture the foundation of economic development is explained in this way: "Without agriculture there can be no light industry. As agriculture and light industry develop, heavy industry, assured of its market and funds, will grow faster". (1) *

Large amounts of state funds are invested in agriculture. Communes are encouraged to farm scientifically and raise production through soil improvement, irrigation, better seed strains and multi-cropping. Much research and sharing of knowledge takes place towards this end. China has now had rich harvests for 14 years in a row. Since 1949 grain output has increased 140% and cotton 470%, while the population growth in the same period has only been 60%. (2)

* 'Light' industry usually refers to consumer goods production; 'heavy' industry refers to the production of goods used in the production of other goods ('means of production', 'capital' goods). Now, many means of production can be produced by small plants, while a 'light' good like, say, paper actually requires large-scale and capital-intensive investments. (See Wheelwright & McFarlane, *The Chinese Road to Socialism*, p.45). So using this light/heavy classification is not without confusion. It seems that 'light' and 'small-scale' are taken as equivalents by many people, including some Chinese writers.

This rapid development of the agricultural base is the only way to feed the population and, at the same time, stimulate light industry by

- releasing more labour
- creating bigger markets
- providing more raw materials (particularly cotton, wool and sugar-bearing crops)
- accumulating more funds

for the development of such industry. Light industry provides consumer goods for a raised standard of living and itself accumulates funds (profits transferred to the state) for the development of heavy industry. (3) Thus between 1952-73, accumulated funds provided by light industrial departments to the state were equivalent to $\frac{3}{4}$ of total state investment in industrial capital construction. (4)

In its turn, heavy industry supplies increasing amounts of farm machinery, chemical fertiliser, insecticide and electric power for the modernisation of agriculture. It also finds markets in the expanding demand of light industry for many of its products (e.g. machinery, equipment and industrial raw materials such as oil, coal and materials for the chemical and synthetic fibre industries).

Local Initiatives, Rural Industry

These 'cycles of mutual stimulation' are further encouraged by the policy of building a wide range of big, medium-sized and small enterprises in every province. Compared with large enterprises, medium-to-small enterprises need less investment, take a shorter time to build and use simpler technology. Once they are started they train technicians and gain experience needed in the development of large-scale industry. Large 'core' enterprises (factories and mines) are set up by the central government where natural resources are concentrated. However, local initiatives can make full use of local labour forces, local funds and scattered resources which could not possibly be identified and brought into play by central planning authorities. In the interests of self-reliance, many factories are started up close to where their raw materials are produced and their products are consumed.

For example, 96% of counties have now built their own farm-tool manufacturing and repair plants and 70% have built cement factories. Curtis Ullerich, a United Nations economist, estimates that in 1970 local production accounted for:

- 70% of processed agricultural produce
- 66% of all chemical fertilisers
- 40% of road-building materials
- 64% of all agricultural implements

He also describes the present tendency to farm out component production to new small-scale enterprises in the communes, which takes some of the load off the large-scale sector. (5)

This expansion of industry in the countryside represents the fruits of the much-criticised Great Leap Forward. As Jack Gray writes: "The crux of the Great Leap was not the backyard blast furnace run by uninstructed peasants. The crux of policy was precisely to bring China's newly acquired industrial strength and technical sophistication to the assistance of the local communities for the development of agriculture and the diversification of the rural economy . . . The new provincial steelworks and other provincial industrial establishments were given autonomy, and encouraged to develop appropriate branches in the special administrative districts . . . which would introduce large masses of peasants to modern technology". (6)

No Shantytowns, No Lopsided Development

The most exciting aspect of all the rural industrialisation in China is the contrast it provides with so many other countries in Asia, Africa and Latin America where rural labourers who can't live off the land flock to the cities looking for jobs which don't exist and end up in shantytowns. In China when workers are no longer needed in the fields (as agriculture gets more mechanised) they can easily shift to industry or help set up new industry in their own villages or nearby towns.

The contrast with problems of urbanisation in advanced Western countries is equally vivid. Expanding cities and regions in capitalist countries grow ever more quickly in a snowball process – businessmen establish factories in these areas in order to take advantage of labour supplies, the expanding market (lower transport costs) and the wide range of services, while workers migrate there in search of jobs and higher wages. This growth takes place at the expense of other areas which may start to decay in a reverse snowball process.

Thus in New Zealand population and industry have increasingly concentrated in the Central Auckland–Bay of Plenty–Hamilton–Rotorua area at the expense of the rest of the country and particularly areas like Westland, East Coast and Otago. The result has been overcrowding and shortages in schools, housing, transport and other social facilities in the growth areas, while social facilities in the declining areas are under-used. (7)

This lop-sided development is the necessary result of economic decisions being based on the profit motive alone. Before the Revolution, development in China happened in the same way with the dominance of



A commune-operated bearings repair and assembly works, (Kiangsu Province).

foreign investment: in 1949 90% of the existing modern industry was located in 5 coastal cities – Shanghai (58%), Tientsin, Tsingtao, Peking and Nanking. Even after 1949 new industries tended to be located in the same areas because of the ready availability of skilled labour, transportation facilities, electricity, etc. (8) 'Revisionists' argued against developing new areas at the expense of economic growth in general, just as they criticised the development of small rural industries because they seemed to be unprofitable.

However, the short-sighted revisionist approach has been well refuted. Revolutionaries in China fully understand that balanced development and regional self-reliance not only serve desirable social ends – in contrast to swollen urbanisation in capitalist countries – but they also, in the longer term, stimulate overall production to a far greater extent than could otherwise have been achieved. The reasons for this have been mentioned already: the far greater use of local labour forces, local funds and scattered resources, greater coordination and cooperation between enterprises and, above all, the gains achieved when social conditions encourage the release of 'the most powerful productive force', the initiative and enthusiasm of the people.

Developing the Hinterland

Central planning enables not only the development of industry in rural areas, but also, as Charles Bettelheim writes, "a related effort to develop industry in the cities *without* increasing their population, which involves a political effort intended to persuade the workers in the large industrial centres to move to the rural areas . . . The Shanghai schools, for instance, yearly graduate about 200,000 youths who request work outside the city; workshops and entire departments are moved; the decisions are made after collective discussion in the factories about who is to leave, etc". (9) Sometimes entire factories, machinery and staff, shift out of the major cities in order to help develop the hinterland.

Millions of educated young people leave the cities for the countryside every year, sometimes to help open up very remote regions. Relationships between these 'young intellectuals' and the peasants have not been easy but they have often developed very fruitfully. Students have brought valued skills to many rural areas, working with the peasants to increase agricultural production and build new industries. In Hupeh province, for example, they have taken part in scientific research and served as accountants, storekeepers, clerks, farming technicians, teachers and medical assistants. (10)

But the intended political effects of this migration go even deeper than helping to reduce the differences between town and country. When educated young people live and work on rural communes, they find out how much they have to learn from the masses of hard-working people and they develop respect for manual labour. Thus they are less likely to be corrupted by opportunities for seeking 'fame and gain' that their education may give them." *

TAXATION & INVESTMENT

There is no personal income tax in China. More than 90% of state revenue now comes from state-owned industry in the form of profit and tax, (up from 34% in 1953). Thus consumers are paying a kind of 'sales tax' when they buy goods: low for daily necessities, higher for cigarettes, alcohol, cosmetics, and some other consumer goods. Remaining state revenue comes from commercial taxes based on turnover and from the countryside. *The weight of the agricultural tax has consistently fallen.* In 1953 the annual agricultural tax amounted to 12% of the gross production value of agriculture and side-

* Middle school graduates cannot go on directly to university. They work for at least two years first and then their applications for higher education must be approved by their fellow-workers.

line occupations, whereas today it is only a little above 5%. In general the tax burden is lighter on agriculture than industry, and lighter on industry than commerce. About 80% of all government revenues are collected at provincial level or below but, as mentioned (p. 18), these are subject to considerable redistribution from richer to poorer provinces. (1)

Industrial Investment: Economising & Self-reliance

State funds are allocated every year according to the priorities of the national economic plan. Roland Berger reports that: "A large part of the Budget (60% in 1972) is devoted to supporting production and capital construction. Investment funds for major projects of capital construction, such as the Wuhan Iron & Steel Complex, are entirely provided by the state. Medium construction works may be funded by both the state and province in agreed proportions". (2)

In industry the popular slogan is: "Go all out, aim high and achieve greater, faster, better and more economical results". Since the Cultural Revolution in particular, workers and technicians have gone in for technical innovations and economising in a big way, doing their best to increase production, while cutting down on consumption of raw materials, fuel and electricity. They also keep a look out for ways to practice multi-purpose utilisation ('turning wastes into wealth.')

Many good examples of economising through co-operation can be found: * a factory which arranges for its surplus hot water to circulate through the central heating pipes of nearby housing blocks; a power plant which conducts its surplus heat to a neighbouring printing and dyeing mill, with resulting savings in coal and power consumption for the mill; polluted water from fertiliser factories which is treated and re-used for irrigation.

'Recycling' in China is applied so thoroughly that it is a major source of new raw materials. From 1956 to 1974 the discarded materials

* Compare the overall efficiency of socialist co-operation with the results of supposedly 'rational' policies based on the profit motive. A worker on the Shanghai docks has described what used to happen there before the Cultural Revolution: "The managers made the dock an independent kingdom, which sought only to build up profit. For example we loaded rice for a grain corporation. If a rice bale broke, we made this corporation's staff patch it. If they borrowed needles from us they had to pay twice as much per hour as the cost of a needle. Did this 'serve the people?' Or, again, warehouses here were used to store goods, and if enterprises did not collect them in time, we rented the warehouses to other enterprises, after putting the original goods in the open air where their quality was affected". (See Wheelwright & McFarlane, op.cit., p.72)

retrieved through state commercial departments alone included 35 million tons of waste steel, one million tons of non-ferrous metals and 11 million tons of materials for paper-making. In 1971 alone enterprises in Shanghai extracted more than 6,500 tons of some 20 precious metals from industrial waste materials and recovered over a million tons of dyestuffs, waste acid, caustic soda, oil and fat and fertilisers from industrial waste liquids. Many useful products are similarly obtained from waste gases. Household refuse is widely used to produce methane which supplies power for rural cooking and lighting; (3) *

Manufacturing enterprises are encouraged, where possible, to build their own machine tools and other equipment for expansion and replacement – the problems are tackled by ‘three-in-one’ combinations of management, engineering staff and machine operators. A Chinese writer comments: “China relies mainly on herself for machinery. Though not all of the equipment is of the newest design, with wisdom and creativeness the workers are able through technical innovation to use ordinary equipment to make modern machinery. Technical transformation has greatly improved the performance of some old machines” (Hsing Hua in *China Reconstructs*, December 1974).

The fruits of this technological self-reliance are shown by this sort of information: from 1966-74 total output of Shanghai industry increased by an average 9.2% in value each year. During this period Shanghai industries accumulated funds *for* the state which came to 20 times the amounts they had received *from* the state in the form of capital investments. (4) Through such vast contributions to state funds as this by prosperous regions with a long background of industrial development, the state can afford to invest lavishly in more backward areas of the country.

Since the Cultural Revolution there has been a strong development of the ‘street factories’ which first emerged during the Great Leap Forward. These factories are set up in different neighbourhoods by local people (often housewives) who are responsible to their neighbourhood or street revolutionary committees. Nurseries and day care centres are available for these workers’ children. Their production ranges from serving local needs – such as mending clothes, sewing, laundering, odd repairs – to products like rubber goods, insulating materials, transistors, etc. There are street factories which started off using only local waste materials and old machines and have now developed sufficiently to become state factories.

* There is growing recognition of the need to prevent pollution altogether, although apparently, for some factories, “there remains a conflict between devoting resources to the elimination of pollution and the fulfilling of state production plans”. Methods of eliminating pollution now *have* to be included in the design of new factories. (See Paul McDonald, “Problems of Pollution”, *China Now*, Jan. 1976)

The Agricultural Base

Outside the main cities, counties keep 5% of the agricultural tax collected from their communes and a percentage of profits on their commerce departments. Some of these funds are used to invest in new industries and to develop capital construction projects such as water conservation schemes and small hydro-electric stations.

At commune and production brigade levels, accumulated funds from agricultural production are spent on machinery, equipment and fertilisers and on establishing new industry: small and medium-sized enterprises that provide the villages with threshing machines, pumps and other farm equipment, electricity, cast iron, steel, construction materials, various metals, wire, fertilisers, workshops for machinery and tool repairs, herbal medicines and drugs, and textiles, clothing, pots, pans and buckets. Leaflets and books illustrating the construction of simple tools and machines have been widely distributed in the countryside. These are rarely complete in detail: it is up to small machinery plants on communes to adjust their products to local climate and soil conditions and other special requirements.

Each year the state allocates huge sums for the development of water conservation projects and agricultural mechanisation as well as for helping those communes with serious economic problems develop production. By 1972 irrigation facilities covered 78% of China’s sown acreage. Crop land is continually being extended and previously barren land opened up – in 1970 alone about 2.26 million hectares were added. Of about 127 million hectares under cultivation, 60 million hectares now bear more than one harvest per year. (5) This progress has transformed the face of China and changed the course of her long history of crop failures and periodic famines due to alternate flood or drought.

Whenever possible it is a source of pride for people on the communes to make advances without calling unduly on state aid. In fact a large part of their huge efforts of rural capital construction (water conservation and soil protection works) does *not* burden the central budget. Millions of workers on these projects in the agricultural slack season are equipped and supported by their production brigades from the proceeds of agricultural production. Obviously, getting together to solve problems in this way is completely impossible in countries where each individual household looks after its own separate piece of land.

Capitalist Farming at a Standstill

Even an advanced and ‘efficient’ agricultural producer like New Zealand suffers from sluggish investment in farming compared to

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PROBLEM-SOLVING IN INDUSTRY

Foreign observers remark constantly on the process of mass innovations and renovations taking place in Chinese factories. This release of human initiative is very important in a poor country which is not prepared to obtain capital for development through slavish borrowing or exploitation of overseas colonies. Capital funds have to be generated mainly through increased production and careful economising (cost-cutting). This is where the combined groups of workers, technicians and leading cadres come in with their constant seeking for improvements in technical efficiency by building new machines, redesigning and adjusting their existing plant and renovating discarded equipment.

Thousands of successful results are reported. For example at a steel plant workers increase an overhead crane's capacity by 50% in order to keep up with expanded furnace capacity. At a boiler plant workers and technicians design and build new machine tools instead of buying them from a machine tool factory. (1) Two American visitors heard of an improved machine at a sewing machine factory which now requires only one operator instead of the former 17; they also heard of new transformers designed by workers which are lighter in weight than the old design, take only half as long to make and cost 30% less. (2)

Some people in the West find it incredible that technical advances should be made by workers instead of by expensive Research & Development departments. However, necessity is the mother of invention. Furthermore, even in Western factories most workers are well aware of improvements which could be made on their shop floors. Many stupid and irrational things go on because decisions are made by executives stuck in their offices. Some companies know this and offer small rewards for 'suggestions' which may save them large amounts of money. In most cases, however, Western workers take no interest in problem solving: why should they line the bosses' pockets and maybe put themselves or their workmates out of a job? (Before the Cultural Revolution many worker-initiatives were equally stifled in China because revisionist authorities believed that only specialists and 'experts' had anything to contribute).

Another serious weakness in Western industry is the time-lag between the development of new technical knowledge and the widespread application of this knowledge. (3) Companies tend to keep new discoveries secret in order

to make extra profits at others' expense. In China the reverse is true. Science and technique exchange centres all over the country spread latest developments quickly and bring people with common problems together to compare notes. Many scientific research institutes have set up research units in factories and villages where scientists work on research with experienced workers and peasants.

Technical knowledge is also spread amongst the industrial workforce through 'workers' colleges'. In the last two years there has been an upsurge of these colleges set up by factories of all sizes – they are designed to train people needed in each factory's actual production. Worker-students are selected for training by their fellow-workers. While studying they receive full pay. Most courses are on engineering subjects, lasting anything from several months to 2 to 3 years. They may be full-time or after-hours and some are on a part-work, party-study basis. Most of the teaching is done by experienced workers, with some engineers and staff from technical institutes. (4)

A reporter writes in *China Reconstructs* (Nov. 1975): "As more and more workers learn technical theory it is no longer the monopoly of a few, and the possibilities of its being used as the basis for rank and special privileges are being reduced. Now, mutual help is becoming the relationship between engineers and workers". What better explanation for the successes in problem-solving reported by Chinese factories?

Workers join in the designing of a big calibre water pump (Shanghai).



(continued from page 31)

China's planned economy. Although the New Zealand economy is no less dependent on its agricultural base, fluctuating export prices and the effects of inflation on farm costs have caused low levels of on-farm investment since the late 1960's. As single economic units in a sink-or-swim economy, many New Zealand farmers have been forced into 'go-slow' farming, laying off staff and cutting down stock numbers and fertiliser usage.

Unlike China, New Zealand has no real way to use new knowledge to cope with its problems, as one writer comments: "Even if all the incentive in the world can be injected into (New Zealand) farming, it will take a couple of years to get things going again. Peak production will be reached about the time the next price decline in the cycle comes up . . . It is quite possible that we will never see intensive methods, using all the advances which agricultural science has developed, applied to our traditional farming systems". (David Yerex in *National Business Review*, 8/10/75).

Now, agriculture in China employs and houses 80% of the population. Obviously Chinese solutions can never be directly applied to the very differently-structured New Zealand economy. However, at least two broad principles of the Chinese experience have wide relevance:

- (i) destruction of the myth that only individual farmers working their very own pieces of land will take a genuine interest in their work
- (ii) clear demonstration of how longstanding and immensely difficult problems can be defined and attacked through rational and co-operative policies — after the old vested interests have been eliminated.

THE PEOPLE'S BANK

After 1949 the major banks allied to foreign interests were confiscated by the state and with the small private banks were gradually transformed to set up a unified state bank. The People's Bank of China now has branches in every province and country, and agencies or savings centres in factories, mines and townships. Savings have been growing rapidly in both urban and rural areas.

Each branch is allocated funds which it rations out amongst applicants for loans on the basis of the state-set production plan. Part of the Bank's job is to assist industrial and agricultural units seeking loans to work out how much money is required (and how best to use that money) in order to fulfil their planned targets. Interest rates are low, e.g. 2.16% p.a. for the purchase of farm machinery and 4.32% p.a. for farm production (seeds, fertilisers, etc.) In the countryside many production brigades have credit co-ops whose funds include the savings of individual peasants who, in turn, can borrow money when in need. When necessary the Bank lends these co-ops money at a low interest rate.

All transactions between state enterprises, public undertakings, government offices, mass organisations and P.L.A. units must be cleared through local branches of the People's Bank. No transactions between them can be made with cash (except those made on a small scale — the maximum limit is legally set.) Another rule is that cash in hand of all such organisations and enterprises must not exceed certain fixed amounts and all temporarily idle cash must be banked.

These rules allow the state to adjust the circulation of cash in a planned way and to prevent commercial activities outside the national plan. It is an important weapon against inflation, as will be seen, to be able to ensure that money supply does not grow faster than the production of goods and services to be paid for by consumers. (1)

Thus in China the banking system has a similar purpose to that in any country: to channel savings to would-be borrowers so that money is used for development and not just hoarded away by its owners. Unlike capitalist countries, however, available funds are lent in order to further desirable social aims and not just in order to make a profit. No bills, securities, gold, silver or foreign currencies are allowed to circulate. The People's bank can maintain firm control over the financial system whereas in a country like New Zealand the authorities' attempts to control the financial system are always being frustrated by private businessmen.

'Free Enterprise' Finance

For years New Zealand governments have tried to keep certain interest rates low to encourage the housing, farming and export industries, and to keep the interest burden of government borrowing down. However, whatever controls the government has brought in, private financial operators have been able to get round them and keep making profits. First, controls on trading banks encouraged the development of finance companies. Then further controls on these non-bank institutions inspired other growing forms of credit "designed to bypass official controls — leasing, lease bank, inter-company borrowing, commercial paper, factoring etc." (Bayliss) (2).

The result has been, in New Zealand, a controlled financial sector with fairly low interest rates and a much faster-growing uncontrolled sector with very high rates. This problem has now been attacked in Muldoon's Mini-budget of March this year, *not* by clamping down on the profiteering merchant banks and finance houses who evade controls, but by taking the original controls off the trading banks. The banks can now make more profits themselves and the reasons for the original controls — low interest rates for government borrowing and for the housing, farming and export industries — have been forgotten. This is in complete contrast to what is possible under a socialist planned economy.

HOUSING & DEMOCRACY

In New Zealand housing is a major problem. Most families have to pay high rents for run-down housing while saving up to get a place of their own. When they manage this, they are saddled with life-long mortgages and high interest repayments. The state Housing Corporation has a waiting list of thousands of families in urgent circumstances.

In the last elections the Labour and National Parties offered two different housing policies to choose from. Labour basically said: 'We will carry on building more houses than ever before'; National said: 'We will cut down on immigration and there will be more houses to go round New Zealanders'. The fact is, neither party had a solution to the problem. Under both governments more and more new houses have stayed empty and unsold while families have been unable to get housing finance. So far as housing is concerned, New Zealanders last year had a great 'democratic' choice between two different ways of not being able to get a house at all!

This shows how pointless it is to criticise China for lack of 'democracy' because the people are unable to choose between two incompetent capitalist parties at regular intervals. 'Government by the people' surely requires that people have *real control over the basic conditions of life*. The ways in which Chinese people have attacked their problems of shelter since 1949 show the effectiveness of grass-roots democracy.

The housing situation in a large city like Peking before 1949 has been described: "The labouring people . . . were crammed into mud hovels and shanties or lived in compounds of tumble-down adobe houses. Many without a roof over their heads had to find shelter in dilapidated temples or under the eaves of buildings. The poor in the northern and southern sections of the city were surrounded by piled-up garbage and overflowing foul water. The contrast between the rich and the poor was indeed appalling" (Li Lien in *Peking Review*, 7/12/73.)

Before 1949 big landlords did no maintenance and charged enormous rents. Like many New Zealand landlords today, they excelled in extortion tactics like 'key money', 'cleaning up charges' and 'commissions'. After Liberation the new People's Government confiscated all real estate belonging to wealthy capitalists and abolished high rents and extra fees. All other privately-owned rental housing was taken over by the state by 1958 (with some compensation).

People who owned the homes they lived in were not affected.

Under the leadership of city district governments, people began in 1950 to build houses, sewers and roads in working-class areas. Houseowners were urged to repair their buildings. (Peking workers took only a year to repair and build 108 kilometres of sewers, dredge 60 kilometres of waterways and pave 337,000 sq. metres of road, as well as levelling 902 lanes and clearing away hills of garbage). Since then slum housing has been progressively replaced with new blocks of flats. New residential areas are provided with restaurants, shops, schools, hospitals, public bath-houses, barber shops, grain stores and other food stores and bus services. (1)

State housing construction plans are worked out every year by real estate administration departments. Local Housing Committees under the neighbourhood revolutionary committees are responsible for allocation of housing, repairs and rents. Rents rarely take more than 5% of incomes and housing is well-maintained. Factories of any size are responsible for housing their own workers at low rents, usually in 4 or 5 storey blocks of flats or dormitories for single workers. Workers can choose whether to live in factory- or state-owned housing; some own the houses they live in. (2) Everyone has a roof but construction needs are still urgent because many families are still too crowded.

The extent of new housing in the countryside varies considerably. Responsibility for it is met at the level of production brigades (which usually means about 150-500 families). The brigades assign part of the proceeds from their agricultural production to support certain of their members engaged in house-building for everyone, in the same way that brigade funds are used to set up new small industries. Many brigades produce their own building materials in brick and tile kilns. Peasants have learnt the trades of stonemasonry and brick-laying through practice. Large numbers of their homes now have electricity and piped water facilities, rare in the old society. Many of the new villages are laid out like towns with compact residential areas. (3)

The Chinese people have set about housing themselves, not by voting for the false promises of politicians, but by throwing out the old landlords and rich property-owners and by using the real control which they now have over the conditions of their lives to deal with the problem in a rational and co-operative manner.

INCOMES, PRICES & DISTRIBUTION

Wages & Incomes

Material incentives are still important in the countryside. In 1957 Chairman Mao set forth guidelines on agricultural co-operation which are still followed: "Accumulation is essential both for the state and for the co-operative, but in neither case should it be excessive. We should do everything possible to enable the peasants to raise their personal incomes year by year in normal years on the basis of increased production". (1) Production teams meet after their harvests to work out their income and produce distribution. In general the distribution goes this way: (2)

5-7% Agricultural Tax (fixed amount)

Up to 10% Reserve Fund (used to purchase equipment, set up small factories)

Not less than 2% Welfare Fund (provides creches and social facilities, looks after the old, poor and disabled)

No more than 25-30% Production Costs

Not less than 50% Income distributed to team members

Satisfactory methods for working out individual incomes are still being wrestled with. In an increasing number of communes everyone receives a basic supply of cereals, oil, cotton, maize and firewood, regardless of work done. Most income is distributed on the principle 'to each according to his work' using agreed systems of work-points for different jobs and conditions of work. "Shares in the collective income are now decided by the individual's estimate of the value of his own work points - an honour system - which is then accepted or reduced or raised in judgements made by his own work team. As over-claims denied by one's neighbours mean a loss of face the tendency is understatement". (Snow) (3)

As well as differences in methods of income distribution, there are still considerable differences in living standards between communes. And on each commune family incomes vary with the size of the family, the number of days worked each week by each family member, and the number of work points assigned to the different kinds of jobs they do. However, there is a growing trend in the more 'politically advanced' communes to work out what each family's share is only once a year, or at least at much longer intervals than once a month. The idea is to shift attention away from what each separate family is earning and towards collective achievements. (4)

In the industrial sector there has been, since the Cultural Revolution, a clear movement away from material incentives such as prizes and bonuses, but wage policies still appear to be in a state of flux. It is

apparently still considered extremist and unrealistic to advocate equal wages for all.

Joan Robinson found in 1972 a national scale of wage rates, with no piece rates or overtime pay. The national wage scale has eight grades, with lower rates for apprentices and higher for technicians, with some differences for light and heavy industry and some variation according to regions. "There is equal pay for equal work but more women traditionally are in light industry and commerce . . . The individual's grade depends upon length of service, skill and 'political attitude', that is, diligence, unselfishness, helpfulness, willingness to take on the awkward jobs and so forth. There is evidently a certain negative monetary incentive in the desire not to miss promotion to a higher grade, but it seems that promotion in the ordinary way is more or less automatic at least over the lower grades". (5)

Real Purchasing Power

Industrial wage rates usually range from a low for 'grade one' of about 33 yuan per month to a high for 'grade eight' of about 100 yuan, with an average wage being about 40-50 yuan per month. (1972 figures) (6) These wages may seem low in Western terms (one yuan = \$0.50 approx.) but the most important thing about wages is what they will buy and *effective purchasing power* is increasing all the time:

This table compares the 1964 and 1974 retail prices of a number of commodities on the Peking market:

Items	Amounts	Retail Price	
		1964	1974
Rice	1 kg.	0.3 yuan (\$0.15)	0.3 yuan
Wheat flour	1 kg.	0.35 yuan	0.35 yuan
Pork	1 kg.	2 yuan	1.8 yuan
Mutton	1 kg.	1.42 yuan	1.42 yuan
Chicken (live)	1 kg.	1.86 yuan	1.56 yuan
Carp	1 kg.	1.04 yuan	0.8 yuan
Eggs	1 kg.	1.82 yuan	1.8 yuan
Tomatoes	1 kg.	0.07 yuan	0.07 yuan
Cucumbers	1 kg.	0.11 yuan	0.11 yuan
White Sugar	1 kg.	1.76 yuan	1.6 yuan
Sponge cake	1 kg.	1.56 yuan	1.56 yuan
Plain cotton cloth	1 metre	0.84 yuan	0.84 yuan
Wool serge	1 metre	31.08 yuan	27.2 yuan

Knitting wool	1 kg.	32.2 yuan	32.2 yuan
Scented soap	1 cake	0.51 yuan	0.50 yuan
Shanghai-brand wrist watch	1	120 yuan	120 yuan
Sewing Machine	1	170.6 yuan	168 yuan
Six-transistor radio ("Peony" brand)	1	105.1 yuan	61 yuan
Penicillin	1 ampoule	0.23 yuan	0.14 yuan
Sulfathiazole	1,000 tablets	18.6 yuan	13 yuan

Source: China Features, Peking.

Consumer prices have remained basically stable for food and daily necessities (grain, cotton cloth, table salt, coal) and have fallen (by 20-30% in the past 8 years) for many manufactured goods. Medicines generally cost only 20% as much as they did in 1950. Rents are stable (taking 3-5% of a worker's wages). There is an increasingly wide range of products available and improvements in the quality of old products: wrist watches, bicycles, sewing machines, radios etc. (7)

Planned Prices

The prices of all major items are fixed under the national plan with some small regional variations (reflecting transportation costs) which are gradually being eliminated. The prices of some small items – pots and pans, leather shoes etc. – are decided at the same level as they are produced and consumed. Imports to be sold on the home market are sold at Chinese prices and are not subject to price changes on the international market.* Some goods have to be rationed due to the unsatisfied demand at the low controlled prices, mainly cotton cloth and grain in the form of rice, flour, bread, etc. At least under rationing everyone gets enough of such goods – if it were left up to a 'free' market system, the high demand would push prices up until only the more wealthy people could afford to buy grain or cloth.

When production has grown quicker than consumer purchasing power, then some prices can be cut. "So long as industry yields profit to the state overall, it does not matter that some commodities are sold at a loss" (Robinson) (8) Because costs in the early stages of heavy industrial production are relatively high, the profit mark-ups for these

* Foreign trade does not represent a major part of China's economy – if it did then this policy would be more difficult to maintain in a period of rapid inflation in world trading prices.

goods are set much lower than for light industrial goods in order to stimulate the demand for them.

Some recent comments by James Tobin, a well-known American capitalist economist, are of interest here. After visiting China in 1973 he remarked that if prices were *not* reduced to the same extent that productivity improved, then state revenues would automatically grow and this would be an easy way for the state to raise the share of resources devoted to investment and collective consumption – at the expense of individual consumers. This is a charge frequently made against China and other socialist countries; in the early stages of development it might not be thought a very serious criticism. In any event, Tobin gained the impression that "there is great official resistance to this temptation" and that the current emphasis is on lowering consumer prices (for industrial goods) and increasing the variety and quality of consumer goods available. (9)

In 1953 the state banned all free grain markets and began planned purchase and supply of grain (thus putting a stop to speculation and hoarding). Under the economic plan each commune receives a quota of basic commodities which the state will purchase at fixed prices. After enough grain has been set aside for production (seeds and animal feed) and for commune members' needs, any surpluses above the quota can be sold to the state at prices above the fixed price. In urban and industrial areas food grain is allotted by fixed quotas based on age and occupational labour intensity (the energy requirements of different jobs). Peasants in areas mainly growing industrial crops receive the same amount of grain as those in neighbouring grain-producing areas. (10)

The consumer prices for food and daily necessities in both urban and rural areas have been kept stable even though the state has on many occasions raised its official purchasing prices for farm products. (The difference between state purchasing prices and state supply prices is covered by state subsidies). The state has also reduced the prices of means of production for agriculture such as chemical fertilisers, pesticides, diesel oil, etc. Hence the cash incomes and purchasing power of rural peasants have been sharply increased but not at the expense of city-dwellers' purchasing power. This is yet another example of what central planning can achieve. At one and the same time, agricultural production has been encouraged and the differences between rural and urban living standards reduced, while in the cities, as Joan Robinson remarks, the economy has avoided "the vicious cycle of inflation which raises money demand for food and so on round". (11)



Kwangsi Chuang Autonomous Region: delivering grain to the state.

Distribution of Goods

All important means of production (raw materials, machinery, etc.) are distributed according to the state plan and cannot be freely bought or sold. This often makes for very complicated organisational work – for example, the Talién Hungchi Shipyard requires each year some 10,000 kinds of materials as well as complete sets of equipment which are supplied by about 800 separate factories and plants. Apparently, in this kind of situation, two main supply channels have developed over the years:

- (i) fixed co-operation between supplier and user, e.g. rolled steel comes straight to the shipyard from the mills in line with the state plan
- (ii) arrangements made through various local supply departments. (12)

Orders for consumer goods from retailers are channelled through the commerce departments in their regions. Shop assistants are especially involved in finding out changing tastes and demands. Customers' opinions are always sought. Factory and retail workers sometimes go to live with rural peasants to find out their needs. All this information is sent back to the factories with whom the commerce departments arrange quantities, quality and delivery dates of each product. Retail stores submit plans for profit and costs to their commerce departments. Mark-ups produce differences between wholesale and retail prices. Generally it is tried to keep mark-ups stable but supply and demand are sometimes equalised by variable mark-ups and/or sales tax margins at the selling stage. (13) A common method of supplying cities with fruit and vegetables is through contracts which the city commerce departments make with surrounding communes.

In the communes themselves commercial activities are handled mainly by grass-roots supply and marketing co-operatives. These co-ops run retail shops (selling food, medicine, articles for daily use and agricultural means of production) and purchasing centres (buying farm and side-line products). For example, in one county of Hunan Province there is one supply and marketing co-op for each of 26 communes serving a rural population of 600,000. Under the 26 co-ops there are 97 branches which in turn control 326 purchasing and retail centres within easy reach of most of the county's 518 production brigades.

In this same county the active role of the supply and marketing co-ops in developing supplies of the means of production (chemical fertiliser, pesticides and farm implements) has been shown. When the county began moving from double-crops to triple-crops, the demand for fertiliser and pesticides began to outstrip the supply. The co-ops worked with agricultural research departments to trial-produce chemical fertiliser and pesticides, using local methods and raw materials, and to popularise their manufacture and use. (14)

It seems that local markets (heavily attacked during the Cultural Revolution) were coming back in many places by 1972. However, these markets are forbidden to deal in produce that comes under the state plan – grain, oil seeds, cotton etc. The co-ops organise rural fairs for the peasants to sell farm produce grown on their private plots, household side-line products and handicrafts. At these fairs it is forbidden to buy for re-sale and there is a ceiling to every price. Prices are settled by supply and demand up to these ceilings. The private markets are now estimated to cover only 2.5% of total retail sales compared with 12% before the Great Leap Forward. (15)

THE ABSENCE OF INFLATION

The absence of inflation in China can best be explained by looking at the fundamental reasons for the present inflation in the advanced Western countries. Under capitalism the important decisions about production and investment are made by private businessmen on the basis of expected profits. The system runs foul of a basic contradiction: profits depend on both a *low* level and a *high* level of wages. In pursuit of profits businessmen increase production while trying to hold down wage costs as low as they can (especially through automation) – yet they mainly depend on wages (consumer purchasing power) to pay for the increasing amount of goods they produce.

Stagnation & Inflation Under Capitalism

Under capitalism, therefore, there is a constant tendency for production to be greater than its potential market. When this does occur businessmen are left with unsold goods on their hands, their profits fall and they cut back on production and investment, with resulting unemployment. This permanent tendency towards stagnation and crisis has for centuries shown itself in a cycle of boom and slump, 'over-production' followed by cuts in production.

Ever since World War II Western governments, fearing the political consequences of mass unemployment on a 1930's scale, have employed Keynesian 'solutions' (high levels of government spending and stimulation of credit) to pump up purchasing power in each country so that businessmen are not left with unsold goods and, in fact, should always have a profit incentive to maintain a high level of investment.

For a long time these policies have ensured a high level of employment. Yet the tendency towards stagnation has not been defeated. In fact today the multinational firms which dominate the 'Free World' economy are always replacing workers with machinery or substituting for labour in the developed countries with cheap labour in places like Taiwan, Hong Kong, Indonesia and South Korea,* even while their production grows. At the same time, private businessmen in pursuit of maximum profits take every opportunity to raise their prices as well as cut costs. (The greater the degree of monopoly in an industry, the easier it is for firms in the industry to raise their prices at will).

So the tendency for the market value of production (expanded volume times increased price) to exceed purchasing power in the Western countries has only been thwarted by ever-greater levels of

* Just as New Zealand companies are looking to set up their factories in the Pacific Islands.

budget deficits and debt expansion. Committed (until recently) to maintaining high levels of purchasing power, governments have been prepared to see the supply of money available to spend on goods and services increase much faster than the actual production of goods and services. In short, whatever the reasons for price rises (monopolies increasing their profit margins, other firms passing on increased costs, high levels of demand in boom times etc..) inflation has only been allowed to continue because of the massive increases in money supply enabling higher prices to be paid.

The alternative would be unsold goods and services leading to bankruptcies, reduced investment and mass unemployment. This, as mentioned in the section 'Central Planning/Free Enterprise', is exactly the price countries like Germany and the U.S.A. have had to pay to get their inflation rates down to even single figures.

How China Prevents Inflation

This analysis leads to an explanation of the prevention of inflation in the Chinese economy where production and investment decisions do not depend on profit considerations. *With central planning there need be no problem of goods being produced which cannot find a market.* We have seen how the growing agricultural base provides markets for the products of light industry, just as agriculture and light industry make growing demands on the products of heavy industry.

As we have also seen, if production in China increases relative to purchasing power, then far from production having to fall, certain *prices* can be cut. Increased purchasing power is a stimulus to producers – if it comes through wage increases or price cuts, the profits of certain enterprises may fall but their incentive to produce and invest is not diminished as it would be under private enterprise.

So there is no need for artificial pumping up of purchasing power by financial means. A full employment level of activity in China does not require the money supply to grow faster than the production of goods and services, as is presently the case in the West. In fact, Chinese economists are proud that "to date, every single yuan in circulation in our country is backed by commodities worth several yuan". (1) This is achieved through the balanced growth of the economy ensuring ample supplies of goods. The bulk of production in China either comes from state enterprises or is purchased by the state, so the state can control the release of goods onto the market at stabilised prices.

There is no question of inflationary pressures because of unsatisfied demands. The growing volume of consumer goods and agricultural means



Commune members in Tafeng County, Kiangsu Province, make deposits at the credit cooperative.

of production released onto the market is planned to coincide with the growth of total social purchasing power. The major components of social purchasing power come under the control of planning authorities: (i) the wages of workers in state enterprises (ii) the funds at the disposal of the peasants in the form of state payments for its purchase of farm produce, state funds allocated to agriculture and agricultural loans made by the People's Bank (iii) the funds at the disposal of government organisations and enterprises for administrative and welfare purposes.

Through the People's Bank the currency in circulation is limited to a scale just enough to meet the planned development of production, and the enlarged circulation of goods. As mentioned earlier (on page 35), all economic dealings among enterprises, organisations, government offices and Army units above an amount specified by the state are settled through accounts in banks without using cash. So, more than 90% of the currency released in China turns out to be for paying wages and purchasing farm and side-line products. If adjustments prove to be necessary during the year, this money purchasing power can be brought into line with available supplies of consumer goods and agricultural means of production by (i) increasing or reducing the amount of loans issued by banks, or (ii) increasing or reducing supplies of goods released from state-held stocks. (2)

There is no deficit financing in China. In fact every year the state budget is planned to show a slight surplus (thus reinforcing state reserves). "We will absolutely not make up financial deficits by issuing bank notes, let alone resorting to the methods used in old China of floating huge domestic and foreign loans * and issuing bank notes to balance financial deficits" (Wang Ping in *Peking Review*, 23/5/75).

The maintenance of state reserves is important for meeting unplanned state expenditures which become necessary and for helping out localities struck by natural disasters or other serious problems which they can't cope with. "In special circumstances such as disastrous natural conditions, adjustment is made in a planned way by increasing production, practicing tighter economy, using state reserves and having the bumper-crop areas help the poor-harvest ones" (Yang Pei-hsin in *China Reconstructs*, April 1975).

ARMED STRUGGLE & DEVELOPMENT

Economic development in China since 1949 compares more than favourably with progress in 'Free World' underdeveloped countries. Countries such as the Philippines, Brazil and Mexico may have begun showing high growth rates in GNP but the vast majority of their peoples are no better off for it: unemployment continues to increase as more and more people are forced to leave the countryside for urban squatter settlements; the income gap between rich and poor is widening, not narrowing; high infant mortality, malnutrition and illiteracy destroy hundreds of millions of people's lives.

Surveying this lack of progress, many Western 'experts' on underdeveloped countries are starting to come up with suggestions which, superficially, have much in common with Chinese policies. Typical examples can be found in a recent article by James P. Grant, a former administrator of American 'foreign aid' programmes ("Development from Below" in *Dialogue*, U.S. Information Agency, Washington D.C., No. 3/4, 1975).

Grant talks about underdeveloped countries making "social justice a major ally of growth" by "establishing institutions which give small farmers and intrepeneurs ready access to capital and technology and ensuring the availability of rudimentary but meaningful education and health services to virtually all their citizens". Since, in most underdeveloped countries, the majority of people live in the countryside, "improvement in rural and small town productivity and living conditions could make more food available; slow the flow of unemployed people to the cities; provide a mass market for labour-

* As mentioned already, the state bonds issued in the 1950's were fully redeemed by 1968. Early loans from the U.S.S.R. were fully repaid by 1965, ahead of schedule.

intensive products such as hand-tools, textiles and shoes, by increasing the purchasing power of the poor majority; and provide large numbers of non-farm jobs in small town labour-intensive industries" (p. 73) He later refers to the necessity to experiment with entirely new technologies developed for rural towns and small cities if there is a dynamic agricultural sector; the fact that medium and small-scale enterprises are often more productive than large ones, at least in the early stages of development (p.77); the mobilisation of unemployed and under-employed workers to build canals, dams and houses (p.78).

Like increasing numbers of Western 'experts', Grant is now prepared to concede that major political changes are needed in most underdeveloped countries for his suggested policies (such as land reforms) to be put into practice: "Established interests in any country naturally resist reforms aimed at removing much of their power" (p.79). However, again like many of his fellows, he completely white-washes this question of power – his article concludes by placing faith in "a determined government (which) understands the issues" or "a sense of crisis . . . that forces governments to act"!

The peoples of underdeveloped countries need more than "determined government" or "a sense of crisis". They need social revolution. The real obstacles to development in underdeveloped countries are the local ruling elites (landlords, money-lenders, merchants and corrupt politicians) who are heavily tied to foreign investment interests. Economic development is impossible when

– a country's economy is geared to the profit needs of foreign corporations, that is, exports of cheap raw materials and food products, ready supplies of cheap labour and captive markets for manufactured goods

– the bulk of potential investment funds are either transferred directly back to advanced countries or else devoted to military spending and luxury goods for the small wealthy minority at home

–the vast majority of people are caught up in a vicious day-to-day struggle for individual and family survival.

Underdeveloped countries remain underdeveloped precisely because powerful vested interests benefit from their continued underdevelopment. What seem, to Western 'experts', to be common-sense economic policies can only be put into practice when these vested interests have been eliminated. Everything achieved in China (as in other socialist countries) has come about through a disciplined revolutionary movement capable of uniting the vast majority of people in armed struggle to defeat the privileged ruling elite and their foreign allies. Only armed struggle can turn a country away from capitalist underdevelopment to socialist development.

SUMMARY

1. Study of China gives hope that whatever social problems and injustices a country has can be defined and genuinely attacked through socialist economic planning. Real planning involves not only setting targets and priorities for economic development but also seeing that, as far as possible, the plans are carried out. No matter how desirable, this is next to impossible in a private enterprise economy governed by the profit motive.

2. In 1949 a People's Government took power in China after decades of struggle and organising. The war against the Kuomintang and all foreign invaders was won by the great majority of Chinese people uniting behind the leadership of the Communist Party. Since 1949 this same combination of forces has set about dealing with problems of health, education and housing and of developing the economy. Military victory over the vested interests of the old society was essential for these efforts to make headway.

3. By 1952 vast land reforms had redistributed the estates of landlords and rich peasants. In a series of stages up till 1958, peasants moved through different levels of co-operative activity from being small owner-cultivators to being members of People's Communes. The Communes became responsible for education, health and defence as well as production. Through co-operation tremendous advances have been made in water conservation and land reclamation which would have been impossible when each peasant family worked a separate plot of land.

4. The 'commanding heights' of the economy (e.g. banking, trade, railways and steel) were taken over directly by the state. By 1957 all other industrial and commercial holdings had been gradually turned over to the state. Despite great industrial progress, planning methods borrowed from the USSR proved to be too inefficient: thus in 1958-59 control of much industry was taken away from Peking ministries and shifted to provincial and local authorities who are now in a position to arrange close co-operation between production units in their areas. Since 1970 there has been still further decentralisation of industrial management.

5. Despite Western criticism of "the failures of the Great Leap Forward" and "the excesses of the Cultural Revolution", both these movements have served to try and maintain the *direction towards socialism* in China, to create the conditions for a widespread change in people's outlooks away from self-interest, to stimulate workers' and peasants'

initiatives and to undermine the growth of a bureaucratic elite. *The aim has been to reap the benefits of a centrally planned economy* (rational use of resources, decisions based on social priorities rather than profit requirements) *while trying to avoid its potential 'Russian-type' defects* (privileged elite, red tape, apathy, bottlenecks, low quality products).

6. Since the Cultural Revolution, China has been administered by revolutionary committees, usually consisting of cadres, soldiers and delegates elected by the masses. Unlike many permanent bureaucrats in the past, the revolutionary committees have set about organising production and social services in ways that try to serve all the people and not just a privileged few. They follow Communist Party policies directed at destroying the 'three great differences' inherited from the old society: the differences between town and country, industry and agriculture and mental and manual labour.

7. Each year discussions and consultations take place back and forth between representatives from all levels – from production teams on the communes and workshops in the factories to their commune and factory revolutionary committees and from these to district and provincial revolutionary committees – in order to work out the next year's production plans. The results of these discussions are taken each year to the Planning Commission in Peking by provincial representatives. At this level final decisions are made on the major aspects of the national plan. Subsequently, the previous discussions within each region and each work-place are repeated in order to decide how the agreed requirements of the national plan should be divided out and how production commitments should be met.

8. Much emphasis is placed on regional and local *self-reliance* to the fullest possible extent. Provinces, counties, communes and enterprises are encouraged to produce and cater for as many of their own needs as they can. Such self-sufficiency is partly made necessary by China's vast distances and its still inadequate transport and communications system. It is further encouraged for the important reasons of military defence ability and greater scope for local initiative and grassroots democracy (people controlling the basic decisions which affect their lives).

9. Another important priority which can be fostered through central planning is *balanced development*, 'walking on two legs'. Since the last years of agricultural shortages (1959-61), agriculture has been made the foundation of the economy, providing markets, raw materials and funds and releasing labour for the development of light industry. In turn the markets and capital funds needed for the development of

heavy industry come from the growth of light industry and agriculture. It is also Chinese policy to build a wide range of big, medium-sized and small enterprises in every province. Large 'core' enterprises are set up by the central government wherever natural resources are concentrated; Local initiatives, on the other hand, make full use of local labour forces, local funds and scattered resources which could not possibly be identified and brought into play by central planning authorities.

10. Rural industrialisation in China provides a vivid contrast with many other countries in Asia, Africa and Latin America where rural labourers who can't live off the land flock to the cities looking for jobs which don't exist and end up in shanty-towns. In China when workers are no longer needed in the fields (as agriculture gets more mechanised) they can easily shift to industry or help set up new industry in their own villages or nearby towns.

11. State funds are allocated every year according to certain planning priorities, in particular the development of the hinterland and the diversification of industry in all regions. More than 90% of state revenue now comes from state-owned industry in the form of profit or tax. (All profits made by state enterprises must be transferred to the state). The weight of the agricultural tax has consistently fallen. State revenues are subject to considerable redistribution from richer to poorer provinces and the autonomous regions.

12. Large sums are allocated each year by the state for the development of water conservation projects and agricultural mechanisation as well as for helping those communes with serious economic problems develop production. However, huge efforts of rural capital construction have been made *without* burdening the central budget. Millions of workers on such projects in the agricultural slack season are equipped and supported by their production brigades from the proceeds of agricultural production. Agricultural progress has also been boosted by widespread scientific experimentation and application of knowledge, and by increased supplies of farm machinery and equipment, chemical fertiliser, insecticides and electric power. The rural face of China has been transformed. A long history of periodic famines may be coming to an end.

13. In industry, as in agriculture, changing relations of production have released tremendous enthusiasm and initiative. New capital funds are generated mainly through technical innovations and careful cost-cutting techniques developed by combined groups of workers, technicians and cadres. Recycling of waste products is applied so thoroughly that it is a major source of new raw materials. New technical advances are quickly shared amongst enterprises. In recent years there has been an upsurge of "workers' colleges" which spread technical knowledge amongst the work-force.

14. Prices are fixed under the national plan on the basis of social priorities e.g. stable and falling prices for daily necessities and medicines; low, stable rents; incentives to agriculture; lower profit mark-ups for heavy industries whose costs of production are relatively high in their early stages. So long as industry yields profit to the state overall, it does not matter that some commodities are sold at a loss. In 1953 the state banned all free grain markets and began planned purchase and supply of grain. Consumer prices for food and daily necessities have been kept stable even though the state has on many occasions raised its official purchasing prices for farm products. Agriculture has also been encouraged by reduced prices for agricultural means of production.

15. To date China has succeeded in preventing inflation. The bulk of production either comes from state enterprises or is purchased by the state, so the state can control the release of goods onto the market at stabilised prices. The growing volume of consumer goods and agricultural means of production released onto the market is planned to coincide with the growth of total social purchasing power. Unlike in Western countries, a full employment level of economic activity can be sustained without allowing growth in money supply to exceed the growth in production of goods and services. Through the People's Bank the currency in circulation is limited to a scale just enough to meet the planned development of production and the enlarged circulation of goods. There is no deficit financing in China. Considerable state reserves are maintained in order to cope with natural disasters and other problems which may cause failure to meet planned objectives.

16. The Chinese system of planning depends entirely on the strength of the social ethic 'Serve the People'. Although the national plan is decided by a widespread process of consultations and discussions — and not just imposed 'from the top down' — it is still frequently necessary for enterprises and rural production teams (and individuals) to subordinate their own interests to overall interests and spelled out in the plan. Such a breakthrough in social consciousness has only been made and strengthened through decades of struggle and organising to defeat capitalism, to show the benefits of socialism for the vast majority of people and to prevent the restoration of capitalism and policies based on the individual profit motive. Without the 'Serve the People' ethic, planning can only be organised by bureaucrats giving out detailed orders far and wide and then having to check they are obeyed. So far the Chinese people have managed to avoid repeating the Russian experience of bureaucratic control leading to massive apathy and frustration, and eventual resort back to profit incentives.

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Geoff Mason,
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GEOFF MASON has worked at various labouring and hospital jobs in New Zealand and the U.S.A. Active member of Christchurch People's Union, mainly in tenancy struggles. Completed degree in economics in 1973 and visited China in that year with a N.Z. students' delegation.