



# HINA'S TRANSITION FROM SOCIALISM

Statist Legacies and Market Reforms  
1980-1990

Dorothy J. Solinger

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# CHINA'S TRANSITION FROM SOCIALISM

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Dorothy J. Solinger



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**An East Gate Book**

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D.J.S.



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# CHINA'S TRANSITION FROM SOCIALISM

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## Introduction

THE 1980s were the decade of economic reform in China. The reform campaign was launched at the end of the 1970s with the contracting of agricultural production to households and the subsequent dissolution of the communes in the countryside, modest experiments in enterprise autonomy in the cities, the legitimization of petty private sectoral trading, and a sudden surge in China's participation in the global economy. The use of market mechanisms to supplement the state plan that lay at the core of these initiatives seemed to promise that the country had embarked on a process that, with time, would result in China's economic system eventually evolving into one in which the plan had been totally overtaken by the market. Indeed, in many ways, the results and achievements were remarkable, the changes startling.<sup>1</sup>

In fact, the increasingly extensive application of market tools over the decade—an application that became even more dramatic with preeminent leader Deng Xiaoping's much-celebrated southern inspection tour in early 1992—convinced many observers that the Chinese people would soon be living under a capitalist system. This volume seeks to demonstrate that that capitalism, when it emerges, will be distinctive. It does so by documenting the specific content and kind of capitalistic measures undertaken in China's urban economic reforms of the 1980s, and by explicating the concerns that lay behind them.

Accordingly, this collection of essays begins from a particular assumption: its guiding theme is the *statism* behind the reform effort. Starting from this statist perspective, this work, unlike much of the literature on the first decade of the Chinese reforms, does not envision reform of the economy—and the predominance of market-oriented institutions and behavior that this would usher in—as a goal in itself at that time. Rather, the picture here is one of reform as merely a *means*, a set of tools to be manipulated in the service of a few fundamental and overarching statist ends: the modernization, invigoration, and enhanced efficiency of the national economy and its consequent heightened capacity to boost

both productivity and returns to the central state treasury.

A related goal was to raise living standards, to improve the state's ability to address social needs, and to ensure social stability. These goals, and not marketization per se, constituted the "project" of the decade of economic reform in China. And it is against these aims that the political elite consistently assessed—and periodically curtailed or revamped—its program of urban reforms.

In this view, reform was not an objective to which a wavering commitment obtained; it represented instead a package of measures valued for their potential to improve the workings of and to increase the state's receipts from the national economy. The fundamental commitment supporting reform, then, was a contingent and not an absolute one. In fact, the critical October 1984 decision on the reform of the urban economy reached at the Third Plenum of the Twelfth Party Congress attests to this interpretation. As explicated in the mid-1980s by a top Chinese economist who was one of the leading proponents of reform, that resolution underlined the continuing prominence of the system of state ownership and of the core purposes of the political elite:

Only by fully developing a commodity economy is it possible truly to invigorate the economy, spur an increase in productivity . . . and be sensitive to the complex and varied needs of society. . . . It is necessary to establish a commodity economy based on a system of public ownership. To understand a socialist planned economy clearly, it is necessary to apply consciously the law of value [—essentially, the workings of supply and demand—] and to establish a commodity economy based on the system of public ownership.<sup>2</sup>

This reading of the reforms' intentions is consistent with the other major party meeting concerned with the urban reform program, the opening session of the Thirteenth Party Congress, held in autumn 1987. Here even then party leader Zhao Ziyang, who all through the decade had been the chief proponent of reform, affirmed the pledge to use market reforms not for the purpose of creating a market, but in order to supplement and revitalize—but never to jettison—the socialist command economy.<sup>3</sup>

The period in which the eleven essays that follow were written coincides exactly with the decade of reform: the first was done in February 1980, the last completed in February 1990. They begin with the theoretical and policy conflicts that attended the birth and early stages of the reforms and go on to examine a range of reforms in the cities, including those in industry, commerce, regional restructuring, and ownership; there are also two that consider the place of the new entrepreneurial class emerging from the reform era, in both its small- and large-scale guises.

Except for the first two chapters, the consistent effort is to explore how plan and market were combined in practice. For this reason, many of the pieces draw upon local data, using material on the implementation of reforms in one particu-

lar city, Wuhan. Wuhan, the “central city” of central China, had a long history of experience as a commercial entrepôt and transport node before the Communists conquered it in 1949; its role as one of the principal national models in the reform era grew out of this history as well as being tied to the city’s advantageous geographical position at the point where the Yangtze crosses the trunkline Beijing–Guangzhou railroad. Much of the data come from interviews conducted with economic bureaucrats, factory managers, and scholars in Wuhan during six visits to the city between 1983 and 1988; I also used local newspapers and journals from Wuhan as well as national sources.

The volume is organized by category; within each category I have arranged the articles chronologically. Thus, through these studies one may read of the gradual progression of urban reform, from the time in 1979 when a handful of firms in one province began to trade independently some of their surplus products (produced above the amount scheduled by the plan for delivery to the state), to the far more radical trials of bankruptcy, stock markets, and enterprise mergers in the late 1980s, even as the leadership’s purposes behind the various initiatives remained surprisingly constant. One may also note the continuity in the new business class’s dependence on cadres’ goodwill, beginning with the obstructions cadres placed in the way of the activities of petty merchants in the early 1980s and culminating in the symbiotic dependence that grew up between bureaucrats and those capitalists with enough assets to form software companies by the end of the decade.

Chapters 1 and 2 highlight the leadership’s ideas that initially shaped the reforms and the sorts of debate that attended their discussions in the early reform years. The first chapter locates the origin of the reform blueprints in designs first advanced nearly a generation before their emergence in 1979. It was already clear by early 1980 when the piece was composed that this time the experiment would be far more daring and multifaceted than similar trials in the mid-1950s and early 1960s had been. Yet it is interesting that even then, in that first fresh flush of loosening the plan, brakes were being applied; just as in 1956 measures that might alter the taxation system threatened reformers, whose fear of a potential loss of state income resulted in programs that limited but did not replace the plan.

The second chapter, on the debates over reform that took place at the meetings of the Fifth National People’s Congress from 1978 through 1981, continues to illustrate the competition between plans for reform and strategies meant to enable the central government to capture more resources for itself. Though the chapter notes that a leadership consensus existed in the early 1980s on the priorities of economic modernization, upgrading the management and the performance of the economy, and improving the people’s livelihood, worries about the social effects of state economic policies, about inflation, and about consequences for the state’s financial receipts fueled much controversy and reconsideration in the short space of three years.

In one of the meetings the chapter describes, then Premier Zhao Ziyang advocated reform precisely because he believed the incentives it offered would increase production and revenue, thereby solving problems of state finance. The conclusion to the essay summarizes all the sessions of the Fifth National People's Congress up through December 1981 as evidencing a shared focus on the goal of economic growth among the political elite, but a standoff between plan and market as to how best to achieve that growth.

The second set of essays is about experiments in the urban state economic bureaucracy. Chapter 3, written at the end of 1983, discusses organizational rearrangements in the procedures and networks used in conducting state-run trade in the early 1980s. It begins from the premise that politicians had reached broad agreement that rigidities in the commercial bureaucracy and in its manner of conducting business had subverted proper socialist goals, namely, enhancing productivity and bettering the people's living standards. Reforms were necessary, all concurred, to stimulate growth through more flexible forms of trading. But the article stresses that any differences existing among the elite as to how great a role to accord the market dissolved when state power and state capacity to dominate the management of state assets and revenue were challenged.

Because of the mutual commitment to a state-run economic system, at such moments of challenge those of a bureaucratic leaning could easily convince their more marketeer-type colleagues that reforms should be curtailed, at least for a time. Furthermore, in that era, the professed objectives of the commercial system's reform were markedly statist: to encourage more output, which could then be siphoned off by state procurement agents; and, through the action of competition, to spur state-managed firms more effectively to corner the newly activated market.

Indeed, as one Chinese reformer points out, in those days state-operated planned wholesale trade was still viewed as the key for leading and managing the national market. Thus, for many, the function of this reform was yet to serve the plan: the chapter closes with a 1983 paraphrase of Deng Xiaoping that claims that the aim of reform is "to perfect, consolidate, and develop the basic system of socialism . . . and to promote the continuous development of the social productive forces."<sup>4</sup>

The fourth chapter, on the operation of the urban industrial bureaucracy as reforms got under way, draws heavily on interviews conducted in Wuhan in the spring of 1984. This piece considers the hypothesis that economic reforms—specifically, decentralization of economic powers and resources and redistribution of state benefits—might be leading to privatization and pluralization, respectively. But the essay concludes that in the local industrial economy economic actors were not adopting new forms of political behavior. Instead, they were simply adapting and retaining familiar behaviors as the structure of reward and opportunity, which remained vertically configured, was essentially unchanged.

That is, since neither state ownership, shortage, local officials' responsibility for the fulfillment of regime-set success indicators (and the assessment of such

officials on this basis), branch-type disbursal of materials and capital, nor soft budgets had undergone any substantial alteration, the behavioral correlates of these principles and conditions had not shifted either. Again the theme of the central leaders' efforts to retain financial controls at the top of the system reappears.

Thus, despite the fact that managers were then judged not as to whether they met quantitative targets but as to whether they reached preset profit levels, the chief incentives to which they responded were still those laid down by their superiors and were not the product of horizontal, market-based interactions. The essay illustrates this point by discussing the mode of implementation in the city of a number of state economic policies in force as of mid-1984. The plan was receding, but the lessons it taught had yet to be unlearned.

The next essay, chapter 5, finds an irony at the heart of the reform program. This is that reformers assumed that market reforms would make it possible to overcome structural weaknesses associated with the planned economy, weaknesses that had produced inefficiencies and stagnation. But in fact, since three key infrastructural/developmental constraints persist in the Chinese economy—namely, shortage of productive inputs and capital goods, lack of design standardization, and inadequate channels of market information—firms have saved on transaction costs by frequently continuing to deal with the partners to exchange with whom the planning system had paired them for decades. In replacing prescriptive relational contracting with relational contracting by preference, firms are reproducing the essence of the old state plan. The moral here once again is the durability of the pathways left over by the plan.

The sixth chapter, based on interviews in both Wuhan and the northeastern city of Shenyang and on documentary materials from 1987 and 1988, takes a look at the most astonishing reforms attempted by this still allegedly socialist state: bankruptcy, the sale of state assets, enterprise mergers, and shareholding. It makes the argument, however, that even these most radical reforms were actually the product of statist goals, not an attempt to reorient the economy toward privatization or, despite claims to the contrary, even toward any genuine separation of management from ownership. In this case the critical goal was to recoup for the central budget losses sustained when the first stage of reform—which had sanctioned decentralization of resources and decision-making power and had disbursed higher wages and bonuses, all in the interest of invigorating the economy—had gone too far.

The objective informing this set of reforms was to manage the state's macro finances, so as to save funds and check inflation, all the while preserving state ownership. Instead of being capitalistic measures they were instead a bureaucratically arranged regrouping of state-owned assets in the interest of garnering larger returns to the treasury. Along the same lines, the article shows how official agents were injected into the new markets to act as supervisors and middlemen in order to administer all of the new experiments in the best interests of the state.

In the process, the political power of state bureaucratic offices and their



cadres was if anything enhanced as it became translated into "market" power. The conclusion here is that these capitalistic practices were simply overlaid atop the state-owned economy. Rather than remolding the old system they instead took on its features, as they were forced to adapt to the state's fiscal needs and purposes and as they were directed by the state's officers and other employees.

Chapters 7, 8, and 9 look at the reforms connected with the restructuring of geographical regions. Chapter seven grounds its discussion in the concept of "uncertain paternalism," which describes the Chinese state's paternalistic impulses and its variable capacity to realize them. When the state succeeds in realizing its provisioning ambition, localities settle into dependency; but when it falters, the argument reads, localities fall back on strategies of encapsulation. The state plan over the years only acted to reinforce localities' inclination to turn inward, as it encouraged each separate little region to fulfill state-designated tasks, and also to protect itself against need.

The essay demonstrates how an endemic local particularism suits the decentralization components of the reform program but vitiates other reforms that aim at the activation of comparative advantage. A dialectic danger for the center also emerged from reform's decentralization. The program was meant to save the center expenses by devolving some investment responsibilities, and by permitting producers and exchange partners to work in part from their own profits rather than just from state disbursements. But the localities' instinct to amass resources for themselves eventually came to threaten the key objective of revenue accumulation at the central state level. Thus, the leadership, in essaying to create wealth through state withdrawal, instead found itself bested.

Chapter 8 takes a look at a group of reforms piloted in Wuhan, all aimed at replacing the old economic system's vertical, bureaucratically organized channels of command and coordination with lateral, market-type linkages. Wuhan, as a historically experienced commercial entrepôt, transport node, and financial center, seemed eminently suited to become a showcase that could lend credence to the potential of the reform program as a whole.

Accordingly, in mid-1984 Wuhan became the first provincial capital nationwide to be granted economic powers equal to those of a province. Reformist leaders in the capital evidently hoped that the empowerment of this city could underline the overall reform program's dramatic shift in emphasis toward commerce as the source of economic vigor and toward decentralized decision making as the most potent incentive. But an investigation of how a number of reforms in the Wuhan urban economy have actually worked out in practice—reforms connected with the new economic powers, those in enterprise autonomy, those entailing the creation of new investment sources, and those creating new modes of circulation and exchange—once again reveals a statist underpinning that hobbled the formation of something like a genuine market. For here again, those in charge of reform in the locality were able simply to turn the old structure to advantage, by only ever so slightly adapting old offices, channels, behavior, and relationships to fit the new system.

With the state's own cadres as watchdogs, it often became possible to use the state's offices to channel, compete with, or control new institutions. Thus, looking closely, one found that the reforms presented a double image: there were free-wheeling ventures, but they were accompanied either by state oversight and intervention or by political facilitation. I conclude this chapter by commenting that the reorientation of the bureaucratic organization of business works where it does because the plan and its patterns prepared the way.

Chapter 9 concentrates on one particular urban reform among those sketched out in chapter 8, the creation of "central cities," again drawing on materials from Wuhan in the late 1980s. Here I show how the urban economic reform was motivated by the idea of shifting the defining principle of urbanism away from hierarchy and toward network, and of transforming the producer city into the commercial city. Once more the impetus was to stimulate growth: policy makers believed that bursting through the bureaucratic barriers put up by the plan would do this. Cities such as Wuhan were encouraged to emphasize their potential as centers of circulation so that horizontal linkages between cities and larger regions could replace the mandatory vertical ties of the plan.

Unfortunately, however, the endurance of a jealous administrative power at the next higher level, the province, and the absence of a fully operative market worked to deprive cities like Wuhan of the clout they should have won, and only tied the city more tightly to the center in defense. The persistence of vertical hierarchies of power, in short, limited the city's ability to organize its own, much less any larger regional economy. The upshot was that Wuhan became the center of a set of truncated networks ensnared within the old hierarchies.

The last two chapters, 10 and 11, turn to the treatment of the new merchant class, the putative "private sector," that has grown up with the reforms. Chapter 10, written in mid-1983, is about the small businesspeople who began to emerge in the early 1980s, and it tells of their sufferings as they attempted to gather a bit of capital of their own. Although the chapter sets out three disparate standpoints among the leadership (and among local cadres as well) as to how to handle the private sector, it highlights the persistent ambivalence among the central elite as to how unreservedly it ought to promote an active small trade sector.

Even those most favorable to the little capitalists supported them for their ability to foster economic growth, not out of any principled stand in favor of private enterprise. Moreover, the essay shows how, even at that early stage, the discovery of state deficits and inflation already led to clampdowns in the interest of better meeting what were thought to be social needs. In pointing to the shared commitment to socialist values among politicians, the article addresses the connection between state control and the people's sustenance in the minds of those shaping economic policy, and thereby comments on the linkage between bureaucratic values and methods on the one side and a notion of positive state power on the other.

Chapter 11, prepared in early 1990, examines the place of the successful

urban bourgeoisie in the Chinese social order at the end of the decade. In exposing how its success has hinged on symbiotic ties its members have been able to forge with state bureaucrats, the piece reveals the continuing prominence and domination of the state, despite reform, and its unaltered social hegemony a full decade after the reforms began.

For the state and its institutions for the most part remained the principal source of start-up capital, the only owner of the means of production, and the chief purveyor of market information. But, since bureaucrats had grown dependent on the skills and energies of the new capitalists, offering them opportunities in order to coopt them into the state's structures, there was an implicit pact between the two groups to sustain the stasis of this so-called transitional phase.

As the essays overlap and expand upon each other, a clear image emerges from their data: the urban economic reform in China in the 1980s was designed as an instrument to fine-tune a decrepit machine. But since the wielders assigned to manipulate this tool grasped it with untrained hands, they were bound to use it crudely, to resort to practices familiar to them, and to rely on associates with whom they had worked before. And each time the tool faltered, those who had bestowed it saw fit to take it back again, as they sought other modes of temporarily tinkering with their machine. But through it all, they never meant to trade the new tool for their own machine.

## Notes

1. For some of the recent literature on the reforms, see the following edited collections: Victor Nee and David Stark, eds., *Remaking the Economic Institutions of Socialism: China and Eastern Europe* (Stanford: Stanford University Press, 1989); Gene Tidrick and Chen Jiyuan, eds., *China's Industrial Reform* (New York: Oxford University Press, 1987); Richard Baum, ed., *Reform and Reaction in Post-Mao China: The Road to Tiananmen* (New York: Routledge, 1991); Bruce L. Reynolds, ed., *Reform in China: Challenges and Choices* (Armonk, NY: M. E. Sharpe, 1987); Bruce L. Reynolds and Ilpyong J. Kim, eds., *Chinese Economic Policy* (New York: Paragon House, 1989); and Peter Van Ness, ed., *Market Reforms in Socialist Societies: Comparing China and Hungary* (Boulder: Lynne Rienner, 1989).

2. Gao Shangquan, "The Reform of China's Industrial System," in Tidrick and Chen, eds., *China's Industrial Reform*, p. 135. At the time that he wrote these words, Gao was vice-chairman of the State Commission for Restructuring the Economic System and chairman of the Editorial Board of the journal *China's Economic System Reform*. The reform document itself can be found translated into English in *China Daily*, October 23, 1984.

3. Zhao's speech was translated in *Beijing Review*, November 9–15, 1987, pp. i–xxvii.

4. As summarized in Ma Hong, "Reform Is Also a Revolution: A Discussion on Studying 'Deng Xiaoping's Selected Works' on Economic System Reform," *Hongqi* (Red flag), no. 20 (1983): 28.

## **Part I**

### **Policy Making and Policy Conflict over Reform**

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# 1

## **Economic Reform via Reformulation: Where Do Rightist Ideas Come From?**

In the social struggle, the forces representing the advanced class sometimes suffer defeat not because their ideas are incorrect but because, in the balance of forces engaged in struggle, they are not as powerful for the time being as the forces of reaction; they are therefore temporarily defeated, but they are bound to triumph sooner or later.

—Mao Zedong, 1967  
“Where Do Correct Ideas Come from?”

Any ordinary reader of the Western press has long since divined that the “pragmatic” economic reform proposals now being floated and tested in China would not have been Mao’s vision of “correct ideas.” Nevertheless, the views emerging recently are reruns, now being played through the system for the third time. The purpose of this chapter is simply to document the early PRC sources of some central tenets of the reform agenda that first resurfaced in 1978 and to inform observers of these reforms that China is not, as some have assumed, just now drawing up its plans by looking outward to Eastern Europe for inspiration for change. Rather, at least some of the more crucial recommendations and experiments being thrust centerstage over the past

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This article was originally written in February 1980. A more sophisticated treatment of the issues addressed here appears in chapter 5 of my book on the commercial system and its politics, *Chinese Business Under Socialism* (Berkeley: University of California Press, 1984).

The following people read and commented on this paper: Shun-hsin Chou, Gardel Feurtado, C. Thomas Fingar, David S. G. Goodman, Richard C. Kraus, Jan S. Prybyla, Thomas G. Rawski, Bruce Reynolds, and Andrew G. Walder. I appreciate all of their suggestions, even though some did not find their way into my revisions.

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few years are in fact closely tied to suggestions made in China as early as 1955, a few of which were even tested in 1956 and in the early 1960s.

The reforms were first aired this time around as early as March 1978, when discussions of the Yugoslav economy began to appear publicly. By the time of the Third Plenum of the Eleventh Central Committee held in December 1978, market-oriented politicians, most notably Chen Yun (named a vice-chairman of the party at that meeting, and within six months made head of the State Council's powerful newly created Finance and Economic Commission),<sup>1</sup> had managed to incorporate into the meeting's decisions the view that enterprises ought to have greater rights of self-determination.<sup>2</sup>

Since late 1978, an array of interrelated proposals has come forward, all of which revolve around the themes of indirect planning, enterprise autonomy, and the use of economic measures (fluctuating prices to reflect supply and demand; bonuses, wages, employment, and profits to act as incentives; bank loans, as against direct allocations, for investment; taxation of fixed assets; competition among firms; profit retention by enterprises; and interest rates) rather than administrative commands for managing the economy. Reformist and anti-Maoist as these suggestions may appear, for the most part the leadership of the late 1970s has been rehashing and reviewing, not first considering, much of their substance.<sup>3</sup>

### **Chen Yun and Xue Muqiao**

One striking example of the parallels between ideas propounded by economists today and those of a generation past can be found in two major documents. The first is a speech given by (then and now) Vice-Premier Chen Yun at the Eighth Congress of the Chinese Communist Party in September 1956; the second, an article that received much publicity in mid-1979 by noted economist and State Planning Commission adviser Xue Muqiao.<sup>4</sup> Not only are nearly all the important measures that Xue puts forward contained in Chen's 1956 address, but several of these are couched, word-for-word (but without any reference to the past), in the very terms Chen Yun himself once used.<sup>5</sup> These measures, if put into effect, would constitute a major underpinning for a whole cluster of corollary policies.

Four key proposals in the Xue article are taken directly from the 1956 piece. First and most important, perhaps, is the theme of indirect planning. For the industrial sector, this opens up the pivotal notion of enterprise autonomy. Xue begins by telling his readers that it is impossible to include all kinds of products in the state plan, and he goes on to note that, "for the most part, state plans for state enterprises on matters of production, marketing, and so on are only for reference purposes." On this point, we find Chen Yun in 1956 lobbying at the party Congress for the view that "norms in the plan should be for reference only; let factories, according to the situation in the market, set their own norms in

carrying out production, not restrained by the norms in the plan. Then, based on their end-of-the-year achievements, they should hand over profits."

Second, both men extend this proposition of indirect and partial planning to agriculture. Chen says that unified purchase will still be necessary in future for grain, economic crops, and important sideline products. However, small local sideline products, in 1956 monopolized by local supply and marketing cooperatives (SMCs), ought to be purchased as well by state stores, co-op stores, and co-op small teams so that goods can circulate freely. Similarly, Xue in 1979 advises sticking, for the present, to unified and negotiated purchase quotas only for grain and other principal agricultural products.

From here Xue leads into his third restated point, in his discussion of price policy. "Make use of the pricing policy," he advocates. "We must learn to regulate agricultural production by means of the law of value," he goes on. A look at the position Chen Yun advanced over two decades before quickly shows us that Xue has nothing in mind that would be new for China. In fact, even when Chen wants to "make price policy beneficial to production" and complains that the stable, frozen, and unified prices then in use are "a phenomenon bad for production," he too is only harking back to practices already implemented in the early 1950s.<sup>6</sup>

On this issue both men conclude with the same observation: Chen notes that "prices will eventually stabilize, and free buying and selling will lead to an increase in production and the balance of supply and demand; only production increases can guarantee price stability." In the same vein, Xue argues that "if the law of value were used to readjust prices . . . commodity prices would not go up universally. Instead, some prices will rise and some will fall. This rise and fall will bring the prices of various commodities closer to their real value."

The fourth area where Xue repeats the ideas of 1956 is in the relations between industry and commerce, or production and marketing. Here Xue recalls a scheme originally put forward by Chen, and first enunciated publicly by him on June 30, 1956, at the Third Session of the First National People's Congress.<sup>7</sup> This scheme, entitled "selective purchase" (*xuangou*), has been referred to by a Western observer as "an invention of Chinese right-wing communism."<sup>8</sup> When Chen proposed the scheme in June, he seemed a bit impatient, as he noted that nothing yet had been done along these lines. For, he reminded his listeners, he had already raised the intimately linked notion of specialized industrial marketing companies at a meeting of the National Association for Industry and Commerce held in November 1955.

Selective purchase, as Chen outlined it at the June 1956 convention (and reiterated three months later as his opening proposal at the Eighth Party Congress), was to entail the following. First, for products closely related to the national economy and the people's livelihood and having simple specifications, such as cotton yarn and cloth, charcoal, and sugar, the method then practiced of unified purchase of factory output and its guaranteed sale by state commercial



departments should be preserved, to ensure supplies and stabilize the market. Toward ordinary articles of daily use, on the other hand, that method should be abolished, and the selective purchase system should be introduced (a system similar to the one in use before 1956). For these goods, commercial departments would be able to exercise preferences in their purchases, making their choices in accord with the quality of the goods and market demand. Items that remained unpurchased after this selection would be left to the factories either to sell on their own or to entrust to commercial departments to sell as the factories' commission agents.

Also, factories could freely select and buy raw materials that were not in short supply, and lower-level shops were to be permitted to select and purchase stocks from any wholesale organ and directly from factories anywhere in the country, rather than being the passive recipients of goods from their superior wholesale companies. The purpose was to make factories concerned about the marketability of their products and so to raise quality and suit consumers' needs. In Xue's 1979 reintroduction of this plan, both the scheme and its rationale are nearly verbatim.

A subsidiary suggestion is Chen's June 1956 plan (which he said then he had introduced the autumn before) for industry to organize specialized companies to manage factories' production and sales instead of relying on commerce to handle all processing, ordering, unified purchase, and guaranteed sales. Such companies were in fact instituted in late 1955,<sup>9</sup> but, as if they had never existed before, Xue's 1979 article contains a request that such companies be created. "Departments in charge of goods and materials may set up companies specializing in various kinds of goods and materials to provide consumers with what they need," he proposed. "Certain trades may establish specialized companies for marketing their own products, and contracts on the supply and marketing of goods may be signed between suppliers and marketing agents, giving scope to various forms of circulation."

Chen Yun first envisaged this arrangement as a necessary component of his selective purchase program.<sup>10</sup> These companies, once in use, were compared to the socialist industrial trusts of the Soviet Union.<sup>11</sup> It seems likely that Chen's design of late 1955 laid the seed that grew to be the Chinese trusts of the early 1960s for which Liu Shaoqi was given the blame during the Cultural Revolution. Thus this key address that Chen delivered a generation ago, resurrected recently by the pen of Xue Muqiao, offers the essential blueprint for many of the changes the Chinese have been considering: indirect planning, enterprise autonomy, fluctuating prices, and response to the market.

This fascinating incident of Xue's wholesale reintroduction of old ideas needs to be put into a broader context, which can be done by posing several questions. First, how widespread were ideas such as those promoted by Chen Yun in the mid-1950s? The relative prevalence of reform proposals then will make today seem even less exceptional. Second, did any of the proposals of that earlier

period actually influence the economic policies of the day or at any other time between the mid-1950s and the present? Third and last, to what extent have the recent reform proposals been put into effect? Each of these issues is a large one, and this article will provide only indications as to their answers.

### **Proposals for Reform in the Mid-1950s (with an Aside on the Writings of Xue Muqiao)**

The first point concerns the climate in which Chen laid out his proposals a generation ago. It is clear from even a cursory retrospect that the period surrounding the Eighth Party Congress, where Chen delivered his seminal proposals, was a very open one for market-oriented economists. At the Party Congress itself, Chen's ideas carried the day, and in November 1956 he was named minister of commerce. Evidence of his victory appears in the Congress proposals for the Second Five-Year Plan, where his method of selective purchase for certain goods was to have been combined, just as he had suggested, with the continuation of unified purchase for grain, edible oils, and cotton.<sup>12</sup>

At the same meeting, Li Fuchun, then chairman of the State Planning Commission, like Chen took up the theme of indirect planning, calling for less detailed plans and more flexibility at the lower levels. In particular, Li proposed allowing lower echelons to set their own targets.<sup>13</sup> The reports of others at the Congress suggested that profit be made the main plan target for evaluating enterprises.<sup>14</sup>

Following the meeting, in the first nine months of 1957 official economic journals became arenas for the discussion of many promarket proposals, the topics of which are all echoed in the reform plans of today. Xue Muqiao himself foreshadowed his June 1979 article in early 1957 in a contribution to *Jihua jingji* (Planned economy) in which he advocated reducing the scope of planned management, which he said (as he did again in June 1979) cannot be carried out in the collective ownership system; using price policy to adjust purchase and sales, while retaining planned distribution only for certain important products; implementing selective purchase by commercial units and factory sales; and changing from a tight, mandatory, thorough plan to an indirect one, written according to market needs.<sup>15</sup> Later in 1957 he wrote, again in that journal, that planning controls ought to cover only a small number of vital products and that production planning for all other products must be determined by the enterprises according to supply and demand.<sup>16</sup> Schurmann presents Xue as the spokesman for Chen Yun's plans at the time,<sup>17</sup> and it is indeed clear that Xue was largely repeating ideas that Chen had put forward a year earlier.

There is no way to know the relationship between Xue and these reform proposals. As an aside, however, it is intriguing to note a certain inconsistency in Xue's writings over the years. Two *Hongqi* (Red flag) articles show that on several occasions he has bent his published views to fit the political line of the

time. Thus in May 1959, as the Great Leap Forward began to falter, Xue published an article clearly straddling the fence in economic theory.<sup>18</sup> Although he does tell readers that everything cannot be put into the plan, he criticizes “modern revisionists” for denying the plan. While he recognizes the need to use prices for consumer goods and to let such prices fluctuate and even rise, he also pays tribute to the continuing importance of rationing as a means of price control. And whereas he notes that investment must be set by the plan, a political tool, its proportions are to be decided through economic measures, such as price and economic accounting. The article also is liberally sprinkled with references to how different the economic system will become under communism, a polite and careful concession, no doubt, to the proponents of the Leap.

A 1963 article, criticized in early 1965 by economist Sun Yefang,<sup>19</sup> goes much further.<sup>20</sup> Here Xue comes down decisively on the side of the plan, saying, for example, that “our means of production are allocated and their price need not be influenced by supply and demand.” This statement is not only in opposition to his view of 1979 that “it will be necessary to relax our planned management of the means of production, using less planned allocation,” but it also contradicts his own earlier words. Even in the Leap-era article, Xue suggests using the market (and not allocation by the state) for exchange among state-operated enterprises when he maintains, if obliquely, that “some comrades wrongly think there are no value categories or exchange of equal values within the state sector.”<sup>21</sup>

In this 1963 essay Xue also voices concern about the “possibility that high free-market prices would make the peasantry ignore collective production,” and so he recommends the planned adjustment of such prices to keep price levels in the free market close to those set by the state. Finally, he also worries about inflation in a way that he did not either earlier or later: inflation helps those with higher incomes win out, he opines, in a vein quite foreign to his usual style.

Lest we should begin to lose faith in the integrity of Xue, two further notes offer some insight into the political pressures on economists in socialist China. Just as during the Cultural Revolution self-criticisms were de rigueur (then, for cooperation with past conservative policies), so they have become again today. In the foreword to one of his recent volumes (this one a collection of his previously published essays), Xue at least apologizes for his past “errors”: “once we entered the 1960s, we overstressed class struggle and political thought education, and neglected developing the productive forces and the modernization of scientific technique. My essays could not help being influenced by that period.”<sup>22</sup>

Xue’s other remark, which I read as a piece of ironic commentary on the role of the economist in socialist China, appeared in an important article on the employment problem in the *People’s Daily* in mid-1979. “Some people worry,” he comments, “that using the collective enterprise system in the city may be committing a mistake in line. They hope that those in theoretical circles will write more articles to prove that this system does not amount to the capitalist road.”<sup>23</sup> Perhaps where a flexible ideology can be used to justify major alter-

ations in economic policy in this manner, such shifts are easier to absorb.

Returning to 1957, many other economists besides Chen and Xue wrote in the journals in favor of market strategies. To give only a taste of their range, Sun Yefang, who achieved fame as a Cultural Revolution scapegoat, was already concerned then that profits remitted upward should be based on the financial condition of the enterprise, rather than being fixed as they still were in mid-1957.<sup>24</sup>

Gu Zhun, expressing himself in June of that year in *Jingji yanjiu* (Economic research), was attacked six months later (after the political climate changed on the eve of the Great Leap) for having favored free competition; having advocated that individual enterprises arrange their own production plans and organizational measures; having viewed the plan as a forecast that would have no controlling function; having encouraged enterprises to calculate their own profits and losses independently; and having proposed price fluctuation as a means of regulating production and circulation.<sup>25</sup>

A last example of this promarket rhetoric is an article by Zhao Qingxin, also in an early 1957 issue of *Jingji yanjiu*. Here Zhao criticizes the state commercial system for its monopoly-like characteristics, and he also speaks out for freer prices as against the stable prices of which the new Communist regime was so proud.<sup>26</sup> In short, a brief scan reveals quickly that many of the central proposals au courant today also formed the framework for discussion in the very midst of the First Five-Year Plan period.

### Implementation in the 1950s and 1960s

If one can judge from the press of the day, at least for a period in the autumn of 1956 in the wake of the Eighth Party Congress, experimentation with a measure of enterprise autonomy in marketing did occur, at least in the model factories whose stories were written up in the papers. Such trials, where they occurred, were closely linked to the institution of Chen Yun's selective purchase scheme, which forced factories to be buyer conscious since, if their products were not chosen by the commercial units either because of poor quality or because their specifications did not meet market needs, these goods would pile up in factory warehouses and become the responsibility of the factories.

The factories would then have a choice: they could set up their own retail outlets, or they could entrust the state commercial departments to buy and market their leftovers. Both alternatives, however, meant economic loss to the enterprise—the first entailed the expenditures of managing the business outlet; the second involved payment of commission fees to commercial units.<sup>27</sup> Incentives in 1956, then, were of a negative sort. That is, enterprise retention of increased profits was nowhere cited in the proposals or the anecdotal press accounts as a possibility; instead, the hope of avoiding financial loss was intended to motivate compliance.<sup>28</sup> In the end, then, an enterprise's ability to adapt to the market

would influence whether it could fulfill its financial plan to the state, since only enterprises whose products were purchased could avoid these losses.<sup>29</sup> Here then was a market-oriented reform whose ultimate sanction was tied to satisfying planned norms. Concrete instances of experimentation in 1956 included a wholesale station in Luda that collaborated with a factory in Dalian to trial produce new kinds of women's shoes on the basis of the new situation in the market;<sup>30</sup> tales of factories selling their own products, and so caring about increasing their colors and lowering costs to suit consumers' needs;<sup>31</sup> enterprises buying raw materials and selling industrial articles of daily use with prices that oscillated (if only within a range regulated by the state);<sup>32</sup> and commercial departments refusing inferior products that did not meet market needs, and replenishing their stocks from anywhere in the nation.<sup>33</sup> "Go beyond the plan," exhorted a local paper, "adapt to a shifting market."<sup>34</sup>

Chen Yun's plans, then, were picked up and saw a bit of practice soon after they were enunciated. Within a very few months, however, this episode came to a halt. In January 1957, a State Council directive suddenly ordered that the relations between industry and commerce were to remain as usual in 1957. The reason given was that the new selective purchase system would have required changes in the taxation system too cumbersome to undertake quickly. That is, the decision explained, part of the profits that had been submitted to the state by the commercial departments' wholesale organs would have been passed to the industrial departments from which the state would then have collected them in the form of taxes. The State Council decision voiced a fear that some state income might be lost should industry fail to hand over the requisite taxes in sufficient quantity.<sup>35</sup>

Thereafter, this minimarket experiment and, along with it, the prerogatives of the commercial units, were slowly snipped away. By May 1957, the local press began to print articles of complaint from a typical industrial planner's point of view. "Commerce only cares about sales," charged one, "and not about factories' needs for balance in production. Frequently changing the ordering plan makes it hard to raise the level of enterprise management."<sup>36</sup> In the same vein, another paper accused commercial departments of ordering goods and then not buying them when the slack season comes.<sup>37</sup> By March 1958 the *People's Daily* held that "commerce is no good at predicting needs," so that commercial units should, as they had before Chen's experiments, simply guarantee to purchase whatever industry produces.<sup>38</sup> This short-lived exercise in market freedom was apparently beaten back by the proponents of the plan, not to reemerge until the Great Leap Forward had played itself out.

The Ninth Plenum of the Eighth Central Committee in January 1961 again explored the concept of market coordination. Although in-depth analysis of this period is beyond the scope of this chapter, it is clear that no wholesale alteration of the economy took place. That party plenum mandated that even major industries must reorient production to the needs of the consumer, and the "independent

operational authority" of factory managers received emphasis. Enterprise profit, according to Schurmann, became the major success indicator of the enterprise, in contradistinction to the First Five-Year Plan's gross product value. Advertising media helped to connect supply with demand more than in the past, and some changes that Schurmann noted in the financial controls placed on enterprises indicated that these were substituting for detailed production targets. Such changes were much like those being suggested today: reforms in banking, restraints on loans, and investment quotas.<sup>39</sup> Also, above-target profits were to serve as a basis for additional rewards.<sup>40</sup>

Articles in both theoretical economic journals and the daily press did take a cue from these new policies, but the impression these give is that the extent of free expression, the degree of market experimentation, and the time period all were limited. For instance, an article by Xu Dixin in an early 1961 *Hongqi* overtly criticized the Guomindang's "state monopoly capitalism." But this article could well have been a covert appeal to loosen the exclusive control over marketing exercised by the Communist state in 1961.<sup>41</sup> Later in the year, socialist commerce was praised for "serving the consumers," a seemingly leftist slogan, in a *Hongqi* piece that managed to insert as well some references to limits on the possibilities of planning, along with advice to pay attention to business accounting and to market research.<sup>42</sup>

More explicit recommendations were made in these years, advising that profitability and efficiency be made the foundation for investment, and that the forces of supply and demand, rather than administrative commands, set prices.<sup>43</sup> But the most extreme positions, such as Sun Yefang's advocacy of using the profit norm as the sole criterion for evaluating enterprise operations, of giving jurisdiction over depreciation funds to basic-level enterprises, and of generally expanding enterprise autonomy were for the most part not issued publicly. It was only when Chen Boda printed Sun's essays in *Hongqi* as negative material for criticism on the eve of the Cultural Revolution that they saw the light of day.<sup>44</sup> Furthermore, the uncertainties of this period were such that by early 1963 Xue Muqiao had submitted his very leftist-leaning essay to *Hongqi*<sup>45</sup> and even Sun Yefang himself openly denied the need for a bonus system and for enterprise profit retention.<sup>46</sup>

In the daily press of this period there were stories about the marketing arrangements of factories. But throughout this time such reportage did not describe arrangements bestowing on factories the degree of freedom lent by the 1956 selective purchase venture. Instead, one finds a search for a formula whereby industry and commerce can collaborate on an equal footing so that industry need not submit fully to the demands of a shifting market, and yet some direct factory-shop linkages might lessen the cumbersome qualities of a planned purchase system. Nowhere do we see factories freely marketing their own commodities, and if the profit principle was truly in practice as an incentive for sales activity, there is no indication of it in the papers.<sup>47</sup> With the Cultural Revolution, of

course, all advocacy of profits and markets quickly subsided, not to reemerge in any force until 1978.

The evidence from 1956 and from the early 1960s is similar: in both periods proposals surfaced and were even made into policy, as at the Eighth Party Congress and at that Congress's Ninth Plenum. But despite some theoretical advocacy and a certain degree of implementation, at neither time did these experiments reach full fruition before a countercurrent, favoring the plan, obstructed a further extension.

### **Implementation Today**

This brief review of two earlier phases of reform formulations and their fates has sketched out the background against which the current critique of the planned economy must be viewed. Only about a year has passed since the recent recommendations were enunciated as policy. It is already clear, however, that this time the experimentation, while still not as far-reaching as the ideas of some theoretical economists, has gone further and is being taken more seriously than at any previous time.<sup>48</sup>

Receiving the most publicity have been the one hundred test-case factories in Sichuan.<sup>49</sup> Here factories that could increase their profits for two years were told they would not have to turn over the increased portion to the state; 5 percent of normal profits could be retained by factories and invested as they wish; after fulfilling state quotas, these units could sell their excess products; and finally, they could purchase their own raw materials wherever they chose.<sup>50</sup>

In other parts of the country, Chen Yun's 1956 selective purchase design has been revived, but, unlike in the earlier periods, this time profits are clearly being used as the incentive to lubricate the operation of the system.<sup>51</sup> Tales of factories selling articles outside the plan have dotted the papers: in Canton, for example, loss changed to profit when a factory trial-produced a new item and improved it to accord with market demands.<sup>52</sup> In Nanjing, factories rearranged the priorities assigned to their planned items in the order of their respective marketability.<sup>53</sup> Retail shops in Hangzhou were permitted to replenish their stocks on their own from production units and brigade enterprises.<sup>54</sup> Textile factories are vying for the market, and an enterprising Chinese medicine shop in Beijing did market research and thereby beat out its competitors.<sup>55</sup> Interestingly, however, this time again official policy in this area has not gone as far as Chen Yun proposed in 1956 (and as Xue Muqiao seconded in June 1979). Nearly a year after the experiment had begun, a Canton radio report announced that both domestic commerce and foreign trade departments must make their procurements of industrial products in accord with the specifications of the plan, and that state commercial departments must monopolize the purchase and sales of products that are covered in the state plan. Selective purchase by these departments, as well as sales by the factories themselves, may only come into play for products