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The Framework and Real State of Economic Management Systems during the Pre-reform Period

Introduction

Before 1978 China's institutional framework was oriented toward centralized economic management. This management had all the typical characteristics of the centralized model such as the concentration of decision-making power in the hands of the central bodies, hierarchical planning mechanisms, transfer of decisions in the form of "directives," economic accounting and planning by physical units, and passive roles of money in the state sector.¹ Though decentralized systems were tried for brief periods, notably by the Great Leap Forward, on the whole China followed the centralized and administrative system of economic management.² It is generally argued by most scholars that within this institutional framework central control was effectively exercised in the allocation of resources such as funds, products, and labor force.³

While I basically agree with this standard view, I also seek to show in this chapter by that gradual changes had already begun to occur in the system by the early 1970s.

In this chapter I will examine the pre-reform systems from the three aspects of planning management, finance, and labor. Under the traditional planning system, production, circulation, and the distribution of goods were administratively controlled. Financial and labor systems supported this administratively controlled system through the supply and distribution of funds and labor force. By analyzing of the contradictions between the framework and the reality of the pre-reform systems, I can explain the necessity and direction of economic reform launched at the end of 1970s.

Planning Management System

Central and Local Planning Management

Chinese economic planning was conducted through two channels of control. The first, as shown in Figure 1-1, consisted of the vertical lines of control by central ministries (*tiaotiao*) and the other of the horizontal lines of control by localities (*kwaikwai*). The changes in the planning management systems during the pre-reform period are characterized as “*liangshang liangxia*,” or “*liangshou liangfang*,” both meaning “centralization twice and decentralization twice.”⁴

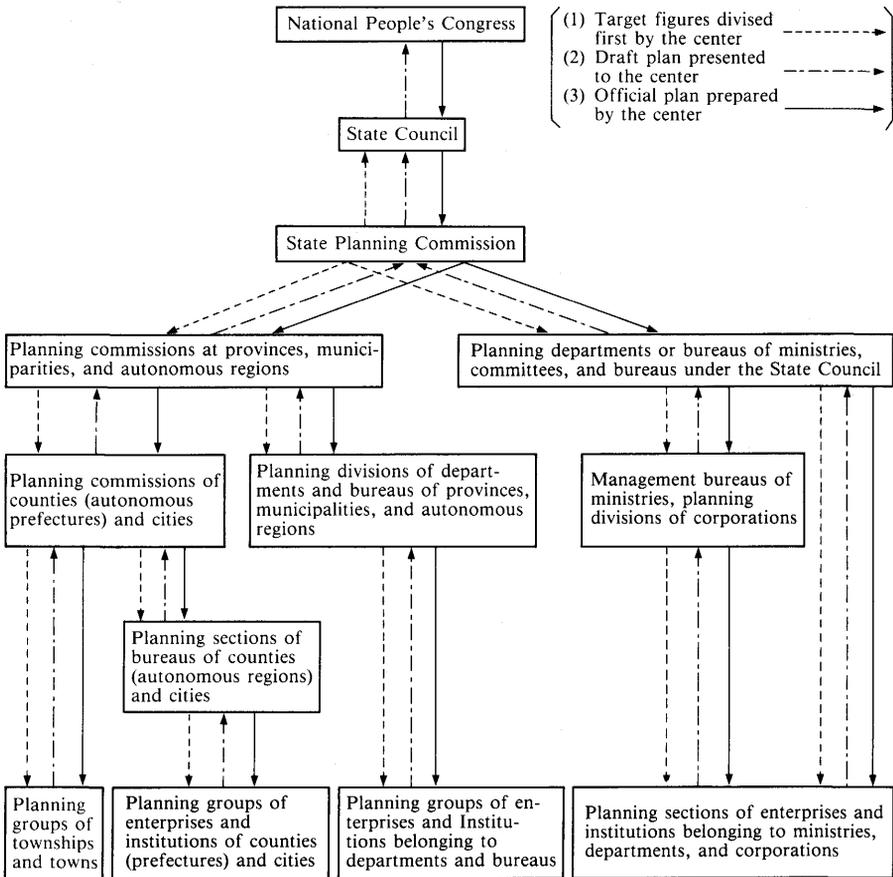
(1) *The first round of centralization, 1954*

With the founding of the People's Republic of China, the entire territory of China was divided into six large administrative regions, namely, Northeast, North, Northwest, East, Middle South, and Southwest China. In each region a military government council was set up which controlled the administrative, military, and economic affairs of the provinces and municipalities in the region. In 1954 China abolished the large administrative regions and shifted to the system under which the provinces and municipalities were directly controlled by the central government. The centralization of political and economic power aimed at promoting the rational utilization of resources on a national scale. This change was the first round of centralization.

With this, the number of items categorized as “materials and equipment under centrally unified distribution” (producer and capital goods) [hereafter referred to as “producer goods”] distributed by the State Bureau of Materials and Equipment and other central industrial ministries, comprising those goods classified as “*yilei wuzi*” (materials and equipment under category I) and “*erlei wuzi*” (materials and equipment under category II) which will be explained later increased from 220 in 1953 to 530 in 1957. During the same period, the number of large enterprises directly controlled by the central government also grew from 2,800 to 9,300. The output of enterprises directly controlled by industrial ministries under the State Council came to account for half of the aggregate industrial output.

The central government also came to control 90 per cent of the capital construction investment, leaving only 10 per cent to the discretion of local governments. During the First Five-Year Plan (1953–57), China had 156 major construction projects and 649 other large and medium sized projects. Of these, five major projects and 16 large and medium projects were located in Sichuan Province. All of the investment in those projects was funneled through the hands of central government. The provincial government of Sichuan was allowed to manage only the remainder of the investment relating to agriculture, irrigation, urban public works, education and public health programs. The portion of local investment accounted for only 20 per cent of the total investment put into

Fig. 1-1. Two Planning Management Systems



(The lines of control by local governments)

(The lines of control by central ministries)

Sources: Wang Xiangchun and Fu Xiaosheng, eds., *Guomin jingji jihua guanli* [National economic planning management] (Liaoning-renmin chubanshe, 1985), p.44; He Jianzhang and Wang Jiye, *Zhongguo jihua guanli wenti* [Problems of Chinese planning management] (Zhongguo-shehuikexue-chubanshe, 1984), p.50; Shigeru Ishikawa, ed., *Chūgoku keizai no genjō to tembō* [The present and future perspective for the Chinese economy] (Tokyo: Chūgoku-Ajia-bōeki-kōzo-kenkyū-sentā, 1972), Table 2-2 and Fig. 7-12.

the province. Even in this case the central ministries defined the items of these local construction projects, and the construction funds also had to be allocated through the hands of the central Ministry of Finance. Besides, distribution of construction materials for such projects was also centrally controlled, and their design and implementation were subject to directives from the central government.⁵

(2) *The first round of decentralization, 1958*

Reform in 1958 transferred administrative authority for more than 8,000 enterprises, or 87 per cent of enterprises directly under the central ministries, to local governments (Table 1-1). Decentralization also took place from provinces to counties and cities under provincial authorities.

In the area of finances, the provincial, municipal, and autonomous governments no longer turned over the year-end budget surpluses to the Ministry of Finance but retained them for themselves. The number of centrally controlled producer goods was also slashed from 530 to 130 (though later the figure returned to 280 after allegations that rough and ready methods were used in cutting them). Likewise the authority to recruit and hire temporary workers was also transferred from the central government to the provinces and cities.

During the reform period, a double-track system (*shuangguizhi*) was introduced as a new planning management system. Under the new system, the government of each province, municipality, or autonomous region was required to organize an economic plan within its jurisdiction, covering both centrally and locally controlled enterprises, and present it to the state planning agencies and ministries. Conversely, the draft plans for enterprises which were directly controlled by ministries were to be forwarded to provincial people's government councils of the areas where such enterprises were located. They were also to be sent to the central ministries in charge of the enterprises concerned. In contrast to this system, the preceding system was called the single track system (*danguizhi*) under which the provinces, municipalities, and autonomous regions were allowed to draw up plans for only the enterprises they controlled directly. They had no authority to intervene in centrally controlled industrial enterprises within their jurisdictions.

With the reform the authority of local governments over planning was increased. On condition that the centrally planned goals (first book) be achieved, local governments were authorized to set higher industrial and agricultural production goals at their discretion (second book).

The power of enterprises was also increased. Enterprises were now permitted to retain a certain percentage of profits earned. In exchange, the enterprises had to cover their own "expenditures on four items" (costs for technological organization, costs for trial manufacture of new products, costs for labor safety and protection, and costs for the purchase of small fixed assets) as well as their bonus fund (a fixed percentage of total wages). Also the circulating funds

TABLE 1-1
INDUSTRIAL ENTERPRISES UNDER THE DIRECT CONTROL OF CENTRAL MINISTRIES

	No. of Enterprises			Total Output	
	Centrally Controlled Industrial Enterprises (A)	State-owned Industrial Enterprises (B)	(A) / (B) (%)	(A) / (B) (%)	(A) / All Industrial Enterprises (%)
1953	2,800 (1)				
1957	9,300 (1)	58,000 (1) 49,600 (7)	16 (1) 18.8	50 (1)	39.7 (2)
1958	1,200 (3)	119,000 (7)	1.0		13.8 (2)
1965	10,533 (3)	45,900 (7)	22.9	46.9 (9)	42.2 ^a (3)
1970	142 (4)	57,400 (7)	0.2	8 (5)	8 (4)
1976	1,300 ^b	78,300 (7)	1.7		
1983	2,500 (6)	87,100 (7)	2.8		30-40

Sources: For (1), Wang Haibo, ed., *Xin Zhongguo gongye jingjishi* [New China's industrial economic history] (Beijing: Jingji-guanli-chubanshe, 1986), p.143; for (2), *ibid.*, p.221; for (3), *ibid.*, p.232; for (4), *ibid.*, p.368; for (5), Zhu Rongji, ed., *Dangdai Zhongguo de jingji guanli* [Contemporary China's economic management] (Beijing: Zhongguo-shehuikexue-chubanshe, 1985), p.79; for (6), Huang Peihua, "Jihua yu shichang: Mao Zedong zhi hou Zhongguo difang zhengfu de zuoyong" [Planning and the market: the role of local government after Mao Zedong in China], in *Lun Zhongguo jingji tizhi gaige de jingcheng* [The process of Chinese economic reform], ed. Lei Pushi and Wu Jinglian (Beijing: Jingji-kexue-chubanshe, 1988), pp.137-38; for (7) State Statistical Bureau, ed., "Zhongguo gongye jingji tongji nianjian, 1988" [China's industrial economic statistical yearbook, 1988] (Beijing: Zhongguo-tongji-chubanshe, 1989), p.25.

^a 55.1 per cent for producer and capital goods.

^b 1,300 shifted to the management of central ministries on behalf of local governments.

the enterprises needed were now provided as interest-paying bank loans and were no longer allocated gratis from the state treasury.

(3) *The second round of centralization, the early 1960s*

During the three years of economic difficulties (1959-61), a recentralization process got under way (with the recentralization of the earlier decentralized authority over personnel, finance, industry, and commerce). In 1963 the central industrial ministries brought back under their control most of the enterprises whose management had been earlier transferred to local governments. Thus, more than 10,000 enterprises again became directly subject to the central industrial ministries. The number of centrally allocated producer goods recovered to the 1957 level. The single track planning and management system was restored. Now the industrial ministries under the State Council largely compiled the plans for the enterprises and institutions directly under their authority in their respective areas while the local governments primarily compiled the plans for the local enterprises and institutions under their control.

From the second half of 1964 through the first half of 1966, "trusts" were

tested out as new specialized industrial organizations. Central ministries experimented with nine national trusts and three local trusts, and provinces and municipalities ran eleven experimental trusts, a total of twenty-three.⁶ The “trusts” were intended to overcome the partition of management demarcated by local administrative jurisdictions. The “trust” system was also clearly differentiated from the traditional system of industrial management through the lines of the ministries, departments, and bureaus in the following three ways: (a) A unified leadership ahead of the trust replaced the multiple leadership exercised by different levels of local government and different ministries; (b) Factories and mines belonging to a single trust were managed under a single plan instead of each of the factories and mines treated as an independent accounting unit; (c) economic management of the trust replaced administrative management through the lines of the ministries, departments, and bureaus.

The trusts however were too short-lived to have a substantial effect on the Chinese economy. But it is doubtful if they could have functioned as expected even if they had lasted longer. This can be inferred by analogy from the fact that when departments and bureaus were reorganized into corporations (*gongsī*) toward the end of the 1970s, nothing in fact changed except the names of the organizations.

(4) *The second round of decentralization, 1970*

During the Cultural Revolution, criticisms were voiced against the early 1960s regulations and systems, such as the regulations for work in state-owned industrial enterprises, (alias the industrial seventy articles—“*gongye 70 tiao*”), the national and local trust system, and the practice of controlling enterprises along the lines of central ministries and departments. Thus, during the second round decentralization reform in the 1970s, almost all enterprises directly under the central ministries were transferred to the control of local governments. Only 142 enterprises remained centrally controlled (Table 1-1). Even large enterprises of national importance, such as the Anshan Iron and Steel Mill, Daqing Oil Field, and Changchun No.1 Automobile Plant, were all transferred to provincial governments. Some of these enterprises were further transferred from provincial to city or county levels. In 1972 the number of centrally controlled producer goods decreased to 39 per cent of the 1966 level.

The institutional changes throughout the four periods revolved around the issue of the distribution of power between the central and local governments. As the centralized system showed its contradictions in the area of management and control, voices would be raised calling for decentralization of power to local governments. Once power had been decentralized, then planning and management systems found themselves in disarray, aggravating national economic disequilibrium. This would inevitably bring about a return to the centralized system. As Sun Yefang rightly pointed out as far back as the 1960s, the phenomenon of “*yishou jiusi, yifan jiuluan*” (once concentrated, stiffened; once mitigated, confused) would repeat itself.

Why then was decentralization carried out a second time when it was known to cause disequilibrium and confusion in the national economy?

During the Great Leap Forward period, decentralization was carried out because the centralized system established during the First Five-Year Plan period (1953–57) had begun to face a variety of difficulties.⁷ One was that the ministries under the State Council were not familiar with the situations facing the industries under their authorities, and for this reason the planning targets assigned to enterprises did not fit the real conditions of industries and enterprises. Especially in the distribution of fixed funds, the ministries tended to attach undue importance to the construction of new facilities and made light of technology and equipment renewal at existing plants.

Second, the centrally controlled enterprises and the local governments had to go through cumbersome procedures at different levels of administration to obtain permits for their plans before they could submit these to the central ministries in charge of final ratification. For this reason urgent requirements often failed to be satisfied at proper times.

Third, local governments and enterprises could not be motivated to develop further as the financing and distribution of producer goods was strictly controlled at the center, leaving little disposable surplus with local enterprises even if they succeeded in increasing output and revenue.

Fourth, because of the strong vertical control by central ministries, local governments lacked the power to compile unified plans for their respective jurisdictions, and this often caused duplication of construction projects in the same area.

Finally, the ministries under the State Council had poorer information than local governments about the real state of local demand-supply and about people's living conditions', thus the ministries tended to overemphasize heavy industry at the cost of agriculture and light industry.

The 1958 reform was promoted precisely to overcome these shortcomings. The decentralization of the Great Leap Forward period thus could logically have been a success. But it failed in only two years. From the view point of planning management alone, the failure of the Great Leap Forward can be attributed to the following:

First, complicated and confused control systems resulting from decentralization caused difficulties in economic management. As will be explained later in detail, problems lay in the ways decentralization was carried out. While "some enterprises" were originally intended to be transferred to local governments, in actual fact 88 per cent of the enterprises were put under local government control. Consequently, transportation, communications, and commercial networks were cut up by local administrative barriers. The authority for controlling enterprises was shifted not only from the national to provincial level, but also from the provincial to the county level. Certainly the reform was carried out too hastily.⁸

Second, the authority to organize economic plans was handed over to local

governments at different levels causing the whole planning apparatus to become multi-layered. At each level the plan targets were inflated through the use of the "second book," and this undermined balanced development of the national economy. Local governments independently carried out even capital construction, resulting in rapid increase in the number of employed workers and staff and undue expansion of the sizes of capital construction projects.

Third, ideological factors were at work. In urban areas, a large number of industrial and commercial collective-owned enterprises were promoted to the status of state-owned enterprises, causing the number of state employees to expand drastically. In the countryside the slogan "*yida ergong*" (larger size and a higher degree of public ownership) was implemented, encouraging the merger of people's communes, production brigades, and production teams. Financially the campaign criticizing "bourgeois rights" had the effect of practically lifting all restrictions on bank loan extension for circulating funds.⁹ Furthermore, the People's Bank of China entrusted local branches with businesses related to deposits and loans, and this generated a situation in which local branches would provide loans to the local governments and enterprises with little restriction on size and conditions. Finally in 1960 the central government had to compensate for bad loans worth 10 billion yuan incurred by the central bank and its branches.¹⁰

Time was too short for the decentralization during the Great Leap Forward period to crystallize into a stable institution. It gave way in the early 1960s to another round of centralization. This was not only because of the said disequilibrium and confusion in the national economy but also because of the serious natural disasters that ravaged the country for three consecutive years along with the stoppage of aid from the Soviet Union.

Centralization set in again during the 1960–63 period, bringing the planning management system back to its pre-1957 configuration. In some areas, control was even more centralized than before 1957. In 1963, the number of industrial enterprises directly controlled by the central government exceeded 10,000. Local governments were barred from participation in planning management of these centrally controlled enterprises. Even planning for local government-controlled enterprises was made subject to the central ministries. Enterprises were no longer allowed to retain profits while the central government took back its responsible for the payment of "expenditures on four items" and for bonus funds. Circulating funds again began to be provided directly from public finances, not through bank loans. The number of producer goods controlled by the central government again increased from 280 to 600. Producer goods output beyond the production targets no longer could be distributed at local government discretion. With steel as the single exception, such surpluses over targets were to be disposed of exclusively by the central government.

But the centralized system in China, already at the end of the First Five-Year Plan, was showing a variety of defects and difficulties, and this round of cen-

tralization could hardly be free from the same problems. For this reason decentralization measures had to be reintroduced as early as the mid 1960s.¹¹

In 1964 control over capital construction investment in agriculture, dairy farming, farm land development, forestry, irrigation and fourteen other areas, with the exception of industry, were shifted from the central ministries to local governments. As a result, when organizing the annual national plan, the central government would leave a certain portion of the national budget to local government use without specifying the industrial sectors or the items. This portion of the budget amounted to 20 per cent or more of the national capital construction budget.

The year 1964 was also the time when the “*sanxian jianshe*” policy (construction for remote regions away from the coastal areas) was promulgated. For reasons of national defense, Mao Zedong issued instructions for heavy and defense industries to be built preferentially in inland regions (*sanxian diqu*) and for major facilities in coastal areas and large cities (*yixian diqu*) to be moved into inland regions.¹² During the five years beginning in 1966, 57.2 per cent of capital construction investment went into inland regions, compared with the 36.9 per cent average for the 1958–62 period.¹³ The focus of this policy was Southwest China where five new trunk railway lines were constructed including the Chengdu-Kunming and the Xiangyang-Chongqing lines.¹⁴

The power and role of local governments were strengthened in the *sanxian* regions. In Southwest China, for instance, the actual construction program of “*sanxian* projects” was carried out by a “*sanxian* construction committee” set up by the central government in the region although the selection of projects and decision on investment plans were in the hands of the central government. The *sanxian* committee consisted of representatives from the three provincial governments involved as well as the ministries and committees of the central government. The construction work on the sites was subject to the management team under the leadership of the party committee. This was a collective leadership consisting of the delegates from the construction, design, and engineering units, the local party committee, and other related departments. It is said that materials and equipment for such projects were supplied beyond the vertical lines of division between the central ministries as well as the barriers of local jurisdictions. The degree of decentralization then was apparently greater than during the First Five-Year Plan as it now involved even the heavy and defense industries. Apart from whether or not this system was efficient from the point of view of the national economy, the greater power given to local governments proved effective in shorting the construction periods and in other ways.¹⁵

In 1966 the products of “*wuxiao qiye*,” or five kinds of small industrial enterprises (iron and steel, cement, chemical fertilizer, agricultural machinery, and coal mining), which had been growing as rural industries, were also distributed based on local government plans.

In 1967 local governments and enterprises were allowed to retain the whole amount of the basic depreciation fund for local enterprises, and in exchange, the central subsidies for “expenditures on four items” were cut. These expenditures were now to be met through the basic depreciation fund.

In 1970, as was already mentioned, most of the centrally controlled enterprises were shifted to local governments. Accordingly, such enterprises and local governments were empowered to retain regular depreciation funds. At the same time capital construction investment came to be shared at a ratio of 4 : 3 : 3 (4 for the central government ministries, 3 for local governments, and 3 decided upon through consultation between the central and local governments).¹⁶ Also control over the allocation of producer goods and finances were decentralized to local governments.

The repeated reforms which zigzagged between centralization and decentralization, however, represented mere shifts of power back and forth within the government structure. At no time did the reform overstep the boundary of administrative control. Kornai János argued on the basis of his experience in Hungary that even if regional decentralization was carried out, it was possible to preserve the shortcomings and inefficiency of the excessively centralized “type-IA” mechanism.¹⁷ This is precisely why the post-1978 reform in China had to be oriented toward neither centralization nor decentralization to local governments but toward the expansion of enterprise authority.

Even so, the fact that efforts for decentralization were repeated demonstrated that centralized control had already become dysfunctional and unfeasible in China. Leaving aside the efforts of the Great Leap Forward period, we can identify a series of decentralization efforts launched in 1964 which preceded the full-scale decentralization measures taken in the 1970s. The 1970 reform thus should not be attributed merely to the Cultural Revolution ideology. It was a reaction to the stagnant state of centralization, and it integrated the various decentralization measures that had been carried out in stages during the earlier period.

Entangled Planning Management Lines

From 1970 through 1976 more than 2,600 selected enterprises and institutes under the direct control of the central ministries were shifted to local authorities. They included large key enterprises whose purchase of materials and equipment and whose production and sale of products were integrated with national planning. Having had experience only in local planning within their own jurisdictions, local governments found it extremely difficult to plan raw material and machinery purchases and product sales for these major enterprises. Because of this difficulty, the central ministries offered to prepare and manage production plans for these enterprises on behalf of local governments. The central ministries also took direct responsibility for setting the targets on the supply of raw materials and machines for these enterprises. Capital construction plans simi-

larly had to be worked out through consultation between the central ministries and local governments. On the other hand, local governments were in charge of investment in these enterprises as well as taxes and profits turned over by them. This mechanism contradicted itself, and so by 1976 more than 1,300 major enterprises whose management had been transferred to local governments were again shifted to the central ministries which managed them on behalf of the local governments.¹⁸

In North China and Jiangsu Province, experimented measures were tried which gave local governments the power to allocate and supply major producer goods ("measures for intra-region balance and adjustment of shortages and excesses"). Selected to try these measures were 400-odd enterprises whose management had been shifted in 1972 from the central ministries to local governments. Despite this shift, the production plans of most of these enterprises were managed by the central ministries since most of them were producing for national-level demand. However, in making production plans for these enterprises, the central ministries discovered that they did not know the amounts of producer goods the local governments were allocating to the enterprises. Conversely, the local governments, in allocating producer goods, did not know the production targets that the central ministries had given the enterprises. There was no correlation between the required output volume and the required amounts of raw materials.

These major enterprises needed a large variety of high-quality producer goods in large volumes. Each of them had dealings with a large number of the other enterprises. This being the case, the local governments found it impossible to fully control the enterprises decentralized to them. The central ministries therefore had to take over their management.¹⁹ Thus the "directly supplied enterprises," or *zhijie gongji qiye* (enterprises following production plans set directly by the central ministries and supplied with producer goods by the State Bureau of Materials and Equipment), soon came to total 2,000 nationwide. Because of this state of affairs, the central ministries in 1976 began to allocate and supply producer goods to those enterprises which had earlier been placed under the control of local governments.²⁰

It was not only the large key enterprises that got entangled in the two lines of overlapping and contradictory planning management between the central and local governments. In 1965, before the Cultural Revolution, as many as 10,533 enterprises were directly subject to the central ministries, and their aggregate output accounted for 46.9 per cent of the total output by the state-owned enterprises. The corresponding figures in 1970 plummeted to 500 enterprises and institutions (142 factories among them) producing a meager 8 per cent output. Between these two dates, management of 10,000 enterprises was shifted to local governments.²¹ The entangled control by the central ministries and local governments was a problem for these enterprises too.

Sichuan Province in 1970 saw sixty-five enterprises shifted to its jurisdiction

TABLE 1-2
MANAGEMENT LINES FOR SIXTY-FIVE ENTERPRISES IN
SHICHUAN PROVINCE AFTER THE 1970 REFORM

	Provinces	Cities	Central Ministries
Government offices as competent authorities	49	7	9
Labor and wages	59	6	0
Finances	44	7	14
Supply of materials and equipment	5	0	60
Production planning	14	0	51
Capital construction planning	9	0	50

Sources: Tang Gongzhao, "‘Tiaotiao,’ ‘kuaikuai’ yu dangqian de jihua guanli wenti" [The "tiaotiao and kuaikuai" and the problems of contemporary planning management], *Sichuan daxuebao* (Philosophy and social science edition), 1983, No.1, pp.24-25.

from central ministries. As Table 1-2 indicates, the lines of management by the central ministries and local government crisscrossed for these enterprises. The central ministries mainly controlled production plans, producer-goods supply, and capital construction plans while the local government had strong powers over labor, wages, and finances.

In the four subsequent years through 1973, 106 more enterprises were turned over from central ministries to Sichuan Province and 246 others from the province to prefectures, cities, and autonomous prefectures. These enterprises, too, suffered from the same problem of entangled lines of control. Capital construction items were also basically transferred to the control of local governments. However, they were divided into complex categories such as items (materials and equipment) directly supplied by central ministries, those controlled by central ministries on behalf of local governments, those for specified uses, those subject to consultation between central ministries and local governments, those under unitary local government control, those invested using local government funds, and imported plants and equipment that required central distribution. These ramifications made the transfer of management to local governments all the more confusing and complex.²²

The effort to decentralize thus ended in failure as local governments proved incapable of managing the enterprises turned over to them by the central ministries. The failure was particularly noticeable in the case of large enterprises with nationwide interests. But returning to centralized systems was not the answer as decentralization came precisely because of the failure of centralization. Moreover, as will be explained in detail in Chapter 2, the degree of centralized control over producer-goods distribution remarkably diminished, making it difficult to fully restore centralized planning. Also the central ministries could

not effectively function unless local governments collaborated with them in the employment of new workers and ensuring the livelihood and welfare of local employees.²³ Both the centralized and decentralized systems proved dysfunctional within the framework of direct and administrative control over enterprises.

Fiscal Systems

Central and Local Finances

The state budget of China is divided into central and local finances. The latter are composed of the provincial, municipal, and autonomous-region budgets and the county, municipal, and autonomous prefecture budgets. As shown in Figure 1-2, the local total budget includes not only that for its own level but the budgets for the lower levels as well. For example, the financial bureau of a province compiles the province total budget by integrating the budget for the provincial level with the county total budgets presented by the subordinate counties. (The township (*xiang*)-level budget has not yet been integrated with the local budget.²⁴)

The natural way to determine whether central or local budgets predominate would be to compare the size of revenues and expenditures. But in China the concepts of revenue and expenditure are not clearly defined. Official statistics dealing with local finances are not compiled using the same concepts. Therefore we must begin by first clarifying the concepts of revenue and expenditure.

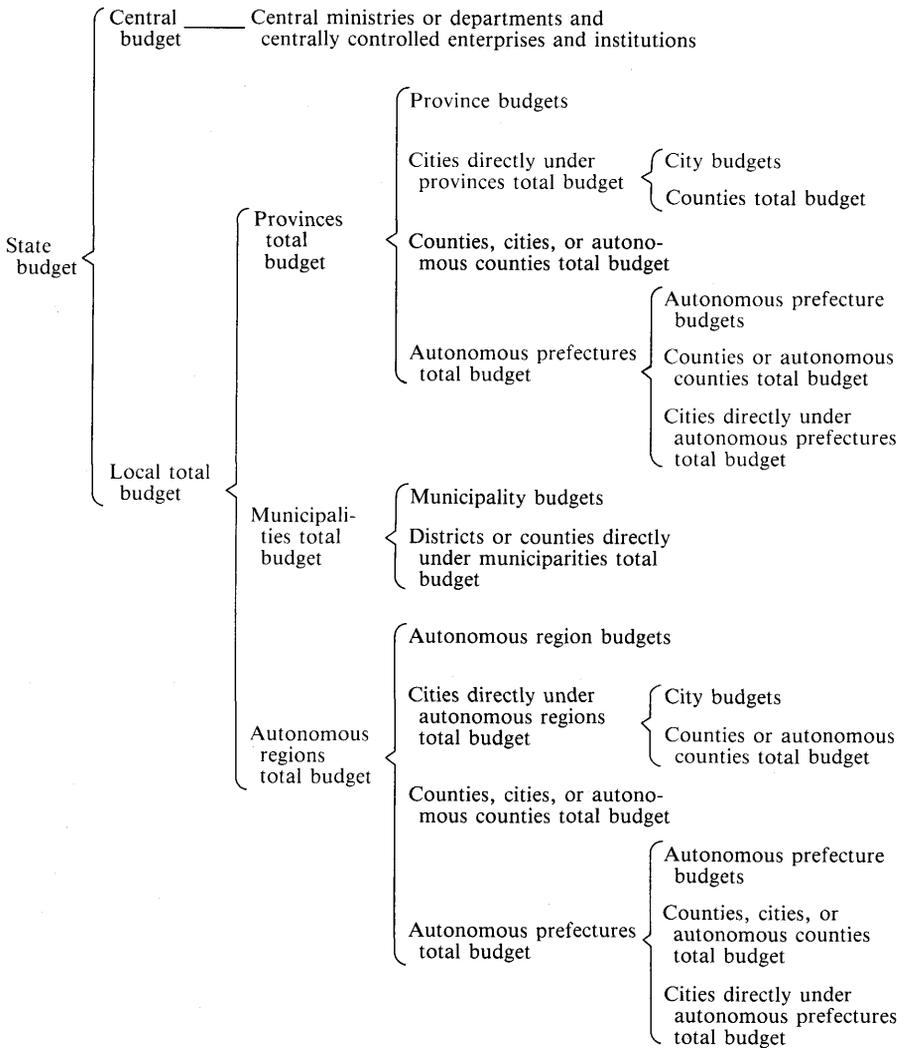
Fiscal revenue used in the Chinese discourse of local finances has three conceptual meanings. We will explain these using the example of Liaoning Province, shown in Figure 1-3.

The revenue of local finances in the first sense of the word is collected or otherwise obtained according to the local government's budget plan. This revenue mainly consists of profits turned over to the local government by enterprises under its control and from various taxes it collects. This may be called "revenue retained within the budget."

The whole amount of "revenue retained within the budget," however, does not go towards Liaoning Province's fiscal expenditures. Part of it is transferred to the central coffers. The remaining portion is what the province can dispose of for itself. The second concept of fiscal revenue denotes this portion, namely, "revenue used for local finance."

The third concept of fiscal revenue refers to "revenue gained locally." This includes all of the profits turned over by enterprises and taxes collected in the province, irrespective of whether they finally accrue to the local government or to the central government. This therefore comprises: (1) the revenue used for local finances, (2) the portion of revenue that will be turned over to the central finances, and (3) revenue of the centrally managed enterprises plus taxes directly collected by the central government.

Fig. 1-2. The Relationship between Central and Local Fiscal Budgets



Sources: Du Junfeng, ed., *Zhongguo shehui zhuyi caizheng guanli* [Chinese socialist fiscal management] (Beijing: Zhongguo-renmin-daxue-chubanshe, 1984), p.507; *Zhongguo caizheng yu jinrong* [Chinese public finance and banking] (Beijing: Beijing-daxue-chubanshe, 1985), p.219.

Table 1-3 shows changes over time in local revenue and expenditure taking into account the said differentiated concepts.

A comparison of the ratios of local revenue retention, (A)/(B), between Tianjin and Shanghai indicates that Shanghai enjoyed overwhelmingly higher rates than Tianjin during the First Five-Year Plan period. This is partly accounted for by the fact that Tianjin had greater "revenue retained within the budget" than Shanghai. But during and after the adjustment period of the 1960s, Shanghai's "revenue retained within the budget" showed a spectacular growth. In contrast this, revenue for Tianjin did not increase very much. Probably reflecting this, Shanghai's (A)/(B) ratio remained half or one third that for Tianjin from the 1960s to the 1980s. In other words, Shanghai contributed greatly to the central finances during that period.²⁵

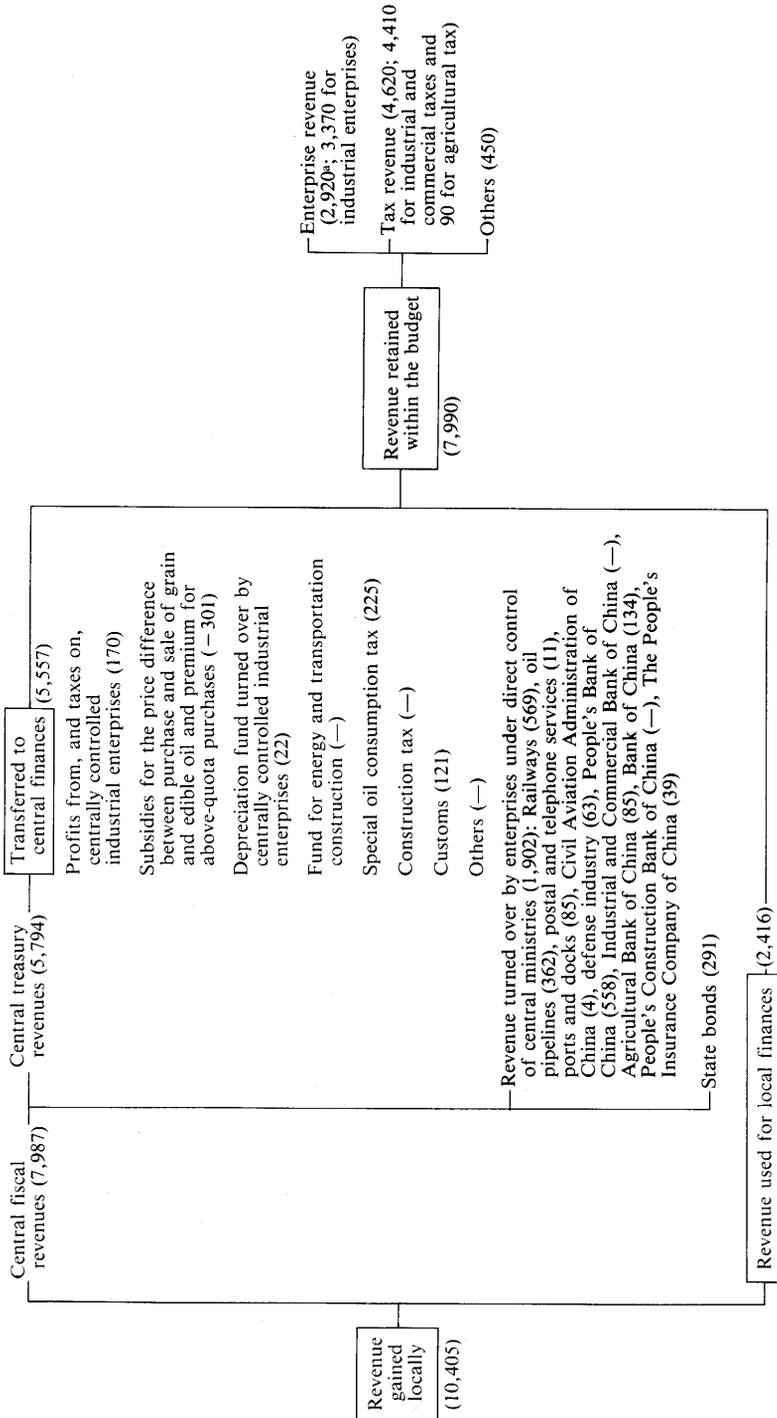
The picture is slightly different if we look into the ratio of local retention to the "revenue gained locally," or (A)/(C). Since the 1950s, Shanghai has consistently been transferring a large portion of the wealth it generates to the central government. It is true that the ratio of local retention rose in the 1980s but this was not above the previous highs registered in 1975 and 1978.

In Japan local self-governing bodies receive state subsidies equal to 70 per cent of their budgets. As they meet only 30 per cent of their expenditures through their own revenues, Japanese local self-governing bodies are said to be only "30 per cent autonomous." In China the fiscal revenue directly collected through the central financial ministry is less than through the local governments. However the central financial ministry exercises great power by allocating revenues from rich to poor provinces. With the financial structure, fiscal revenues from the fifteen rich provinces and municipalities are redistributed to the twelve poor provinces and autonomous regions.²⁶ Though there is a clear difference between China and Japan in the ratio of local fiscal revenue to central fiscal revenue, in both countries the central government maintains a firm grip on nationwide fiscal expenditures. Figure 1-4 compares the relationship between central and local finances in the two countries.

Now let us examine the composition of the "revenue retained within the budget" and the actual expenditures of the central and local governments. During the First Five-Year Plan, the central government met 75 per cent of the state fiscal expenditure. Of this 75 per cent, about 40 per cent came from revenue directly collected by the central government and about 5 per cent was fiscal deficit. The remaining 30 per cent was accrued from local government finances.²⁷ The local governments accounted for only a quarter of the state fiscal expenditures even though they were responsible for collecting more than half of the state fiscal revenues.

In 1955-56 the fixed revenue for local finances and the revenue retained to the fixed ratio for local finances together accounted for 60-80 per cent of the provincial and municipal budgets. Though this meant that local governments had large sources of revenue, in practice most of the revenue was categorized

Fig. 1-3. Central Government and Local Government Revenues in the Finances of Liaoning Province, 1982 (Million yuan)



Sources: *Liaoning jingji tongji nianjian, 1985* [Liaoning economic statistical yearbook, 1985] (Beijing: Zhongguo-tongji-chubanshe, 1985), p.468 and its 1987 edition, p.572.

a Total "enterprise revenue" happens to be smaller than industrial enterprise revenue because compensations for deficits registered by commercial enterprises are subtracted in advance.

TABLE 1-3
LOCAL REVENUE RETENTION IN TIANJIN AND SHANGHAI
A. Tianjin City

(100 million yuan)

	Expenditures		Revenues	Ratio of Local Revenue Retention, (A) / (B) %
	For own Use (A)	Transfer to the Central Government ^a	Revenue Retained within the Budget (B)	
1950	0.44	(1.47)	1.91	23.0
1952	1.08	(2.80)	3.88	27.8
1957	1.63	(6.36)	7.99	20.4
1962	2.49	(7.23)	9.77	25.5
1965	3.50	(9.83)	13.33	26.3
1970	6.40	(21.62)	28.02	22.8
1975	10.61	(28.56)	39.17	27.1
1978	14.53	23.76	39.25	37.0
1980	14.67	26.04	40.94	35.8
1985	26.97	20.34	48.21	55.9
1989				84.4

B. Shanghai City

(100 million yuan)

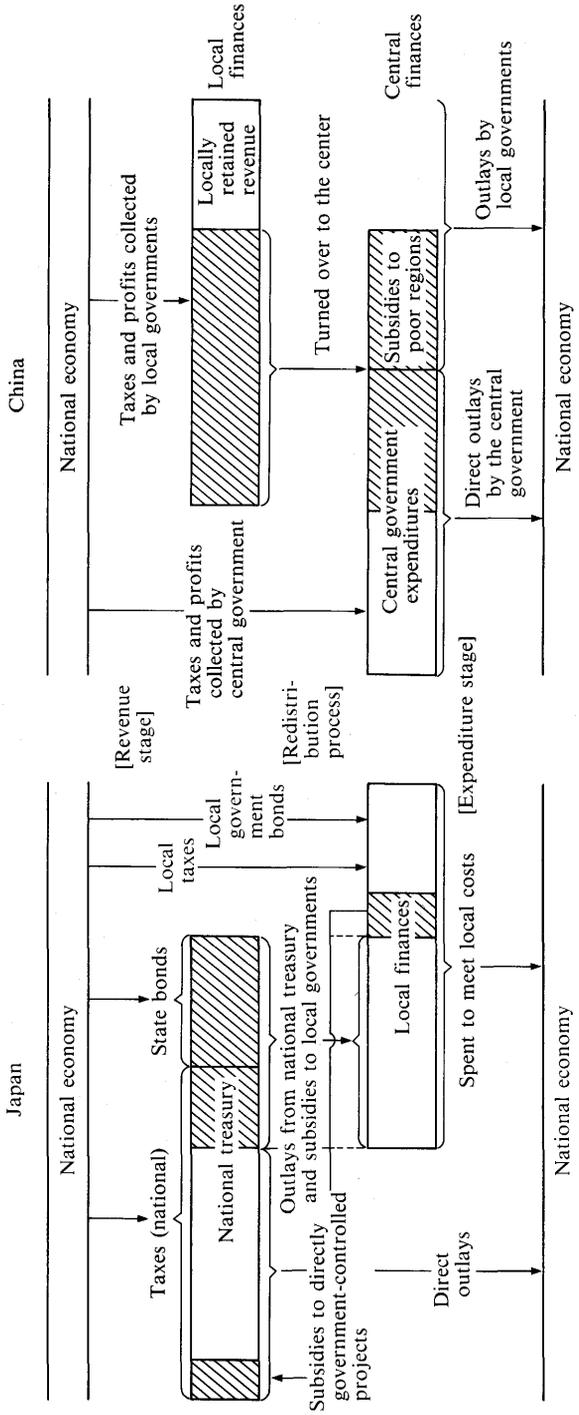
	Local Expenditures			Revenue Gained Locally				Ratio of Local Revenue Retention	
	For Own Use (A)	Transfer to the Central Government ^b	Others	Local Revenues		Central Fiscal Revenues	Total (C)	(A)/(B) %	(A)/(C) %
				Revenue Retained within the Budget (B)	Others				
1950									
1952	2.10	(-0.75)	0	1.35	1.20	16.75	19.33	155.6	10.9
1957	2.66	(1.29)	1.09	3.95	0.67	41.15	45.77	67.3	5.8
1962	3.18	(40.32)	0.69	43.50	0.86	17.34	61.70	7.3	5.2
1965	6.71	(55.04)	0.88	61.75	1.15	20.28	83.18	10.9	8.1
1970	10.21	(88.23)	2.67	98.44	1.46	14.12	114.02	10.4	9.0
1975	24.62	(109.55)	1.91	134.17	2.01	10.93	147.11	18.3	16.7
1978	24.28	(142.56)	1.73	166.84	2.38	21.45	190.67	14.6	12.7
1980	17.39	(154.66)	1.79	172.05	2.68	24.12	198.85	10.1	8.7
1985	41.89	(139.70)	4.18	181.59	2.64	79.63	263.86	23.1	15.9

Sources: Figures for Tianjin from: Tianjin city statistical bureau, ed., *Tianjin tongji nianjian* [Tianjin statistical yearbook] (Beijing: Zhongguo-tongji-chubanshe, 1986), pp.333-36; figures for Shanghai from: Shanghai city statistical bureau, *Shanghai tongji nianjian* [Shanghai statistical yearbook] (Shanghai-renmin-chubanshe, 1987), pp.57-61.

^a The figures in parentheses were calculated: (revenues retained within the budget) — (expenditures used for local finance).

^b These figures were obtained by subtracting the expenditures used for local finance from local revenues retained within the budget.

Fig. 1-4. Relationships between Central Finance and Local Finances: Japan and China



Sources: For Japan, Takamitsu Maruyama, *Chihō jichi gyōsei no kōzu* [The composition of local self government] (Tokyo: Gyousei, 1980); for China, the author's own research.

as items for central government allocation. Local governments thus had no authority to allocate the greater portion of revenue for themselves.²⁸ This was because during that period more than 80 per cent of the economic construction budget and the total defense budget had to be met by central finances. In contrast, 72 per cent of the social welfare, educational, and cultural expenditures and 80 per cent of the administrative expenditures were met by the local governments.²⁹

As with other aspects of the planning management system, the finance management system too underwent decentralization. Typical reforms in this direction were carried out in 1958 and 1970. Considering that the ratio of local government fiscal expenditures was tending to increase, the direction set by these two reforms was necessary. But both reforms were short-lived.

Decentralization failed partly because it kicked off competition over power between central and local finances. In the process of decentralization, central government and local governments are bound to engage in bargaining over which items of revenue and expenditure should belong to which side. The amount of revenue to be handed over to each local government is usually based on the items and sums of revenue and expenditure for the previous year or several years. However, under the traditional system of unitary central control over revenues and expenditures, the total amount of expenditures encompassed met by the central finance in the past did not necessarily embody the items to be managed by the central government. Conversely, some of the expenditures actually met by local governments seemed more logically the responsibility of the central government. This being the case, the division of financial power between the central and local governments based solely on past records would often leave jurisdictional responsibilities unclear at both levels.³⁰

Conflicts between the central and local power occur in the process of centralization as well. In 1964 "trusts" were organized in 19 industrial sectors, including nine operating at the national level. Where local enterprises were integrated with these national trusts, the local governments lost major sources of fiscal revenue. It is said that in a number of places the factories earmarked for integration with national trusts transferred personnel to other factories, moved their machines out, and changed lines of production to other industries to escape integration.³¹

From 1971–80 the ratio of local governments involved in the collection of state financial revenues grew to 80 per cent. Reflecting this increased role in collecting revenues, the share of local finances in state financial expenditures grew to around 50 per cent.³² Though state finances still weigh heavily in China's financial structure, since the 1970s there have been increasing signs of improvement for local finances.

The Extra-budgetary Fund

Of the fiscal resources which innately are counted as fiscal revenue, the por-

tion which is incorporated into the central or local government budget is called the "budgetary fund." This pertains to the state fiscal revenue presented in the government's annual budget and settlement reports. Of the same resources, there is another portion which is exempted from the central or local government budget and left to local governments, state-owned enterprises, and various competent government offices for appropriation. This latter is called the "extra-budgetary fund."

The extra-budgetary fund has the following characteristics: First, local governments, enterprises, and other competent government offices involved have control over the respective extra-budgetary funds they themselves have generated. In other words, other bodies which have not generated these funds have no right to appropriate them. Second, the extra-budgetary revenue is purpose-specific. For instance, the additional charge for urban public works can be appropriated only for urban public facilities and public works. Third, the ways of appropriating these funds are varied and not uniform.

The extra-budgetary funds were introduced for the following two reasons:³³ First, there are certain expenditure items which by nature are not congenial to centralized management. These include road maintenance costs, port management costs, and market supervision costs, which should be met flexibly as need arises. In the 1950s the above three expenditures accounted for 90 per cent of the extra-budgetary funds, and even in the 1980s they still represented a 70 per cent share.

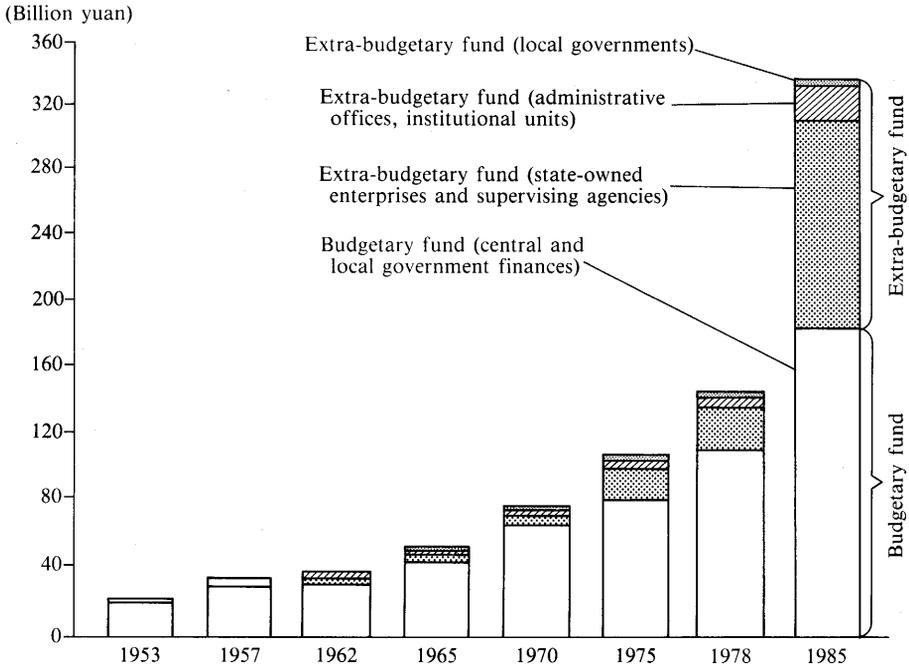
Second, there was the political need to provide financial incentives to local governments as well as state-owned enterprises. The introduction of the profit retention system for state-owned enterprises was a typical case of this kind.

The total amount of extra-budgetary funds of various kinds began to soar during the mid 1970s. In 1953 the extra-budgetary fund represented only 4 per cent of budgetary funds. The figure jumped to 59.97 per cent in 1982. Even in 1977, before economic reform was launched, the extra-budgetary fund already made up 35.6 per cent of the year's budgetary funds. In Shanxi Province the local extra-budget fund amounted to 62 per cent of the provincial total budgetary funds in 1980. In 1982 Jiangsu Province's extra-budgetary fund almost equaled its budgetary fund.³⁴

Extra-budgetary funds basically consist of (1) various additional tax revenues accruing to local finances, (2) road and river maintenance duties and forest managing funds received by administrative offices and institutions, and (3) retained profits and depreciation funds left in the hands of state-owned enterprises and the government agencies in charge of these enterprises.

The shares of the above three categories in the extra-budgetary fund appropriation are shown in Figure 1-5. While the extra-budgetary fund as a whole has been growing rapidly, the portion attributed to the state-owned enterprises including the departments in charge of them has come to form an overwhelming share.

Fig. 1-5. Budgetary and Extra-budgetary Funds



Source: State Statistical Bureau, ed. *Zhongguo tongji nianjian*, 1988.

Given the enormous size of the extra-budgetary fund in comparison with the budgetary fund, the former has nowadays been called “*dier caizheng*” (second finance).³⁵ This part of finances is increasingly outside of administrative management because a large portion of it is attributed to enterprises. As extra-budgetary funds are autonomously controlled by local governments and enterprises including the departments in charge of the enterprises, cases of the irregular use of such funds in contravention to regulations are frequently reported. For instance, state-owned units will unduly extend the scope of extra-budget revenue to increase their income, or appropriate the fund for purposes other than specified, such as for the construction of office buildings, assembly halls, hotels and guest houses (*lou, tang, guan, suo*), or use them for capital construction projects not prescribed in the state plan.³⁶

The extra-budgetary fund system is in line with the requirements of the current stages of economic reform because it allows flexible responses to needs that cannot be met by administrative management methods and because it gives local governments and enterprises greater discretionary powers. The expansion

of the extra-budgetary fund started even before economic reform was launched. Already in mid 1970 the extra-budgetary fund was equal to 30 per cent of the budgetary fund. These circumstances have compelled the government to modify emphasis of its financial policy from "qualitative control" through fiscal measures to "quantitative control" exercised through banks. The direction of fiscal and financial reform in the 1980s thus reflected the expanding tendency of extra-budgetary funds since the mid-1970s.

Inequalities in the Midst of Policy Egalitarianism

Urban Welfare Turned to Established Privilege

Being registered as an urban resident means accessibility to various conveniences and privileges in addition to receiving a relatively high income. The staff and workers of state-owned enterprises are entitled not only to a basic wage as provided in the wage scale and a job allowance which is practically like a wage, but also to other allowances for house heating in winter, price subsidies for non-staple foods, subsidies for home leave traveling expenses, and livelihood subsidies. A national survey in 1978 revealed that there were more than 200 different kinds of subsidies given to the staff and workers of enterprises.³⁷ Moreover, state-owned enterprises supply employees and their families with cultural and gymnastic facilities such as cultural palaces, libraries, clubs, ball game gyms, and night schools. They also provide housing, dining halls, nurseries, kindergartens, primary and secondary schools, barber shops, and bath houses. The charges for these facilities are free or extremely low. Expenses for this welfare work borne by enterprises is equal to 80 per cent of the total wage bill they pay their employees.³⁸

Under this system of ample benefits and welfare for urban residents, China has managed to keep the wage level low for the sake of a high savings ratio. In other words, the free or low cost provision in kind of houses and other benefits has been needed so that urban workers would not fall into destitution because of low wages. Also, given the generally low standards of living prevailing in China, there has been the real possibility of the emergence of a poverty-stricken population unless the small economic pie was divided equally among the people.

But this egalitarianism limited to urban working people has had a hollow sound to many of the people living outside urban areas who have not enjoyed the same benefits. To them it is nothing more than special privileges set aside for urban residents. Farmers in the countryside have not felt the strong contradiction since they have been working under an entirely different ownership system and living in different geographical locations. But those who work as temporary laborers in urban factories or live with a rural registry in cities and suburbs have felt that the benefits the urban registered people enjoy are privileges they have been unduly excluded from.

TABLE 1-4
POPULATION HAVING RURAL REGISTRY IN URBAN AREAS

(Million)

Year	China statistical yearbook, 1981 (A)			China statistical yearbook, 1987 (B)			Differentials, (B) - (A)		
	Total Popu- lation	Urban Popu- lation	Rural Popu- lation	Total Popu- lation	Urban Popu- lation	Rural Popu- lation	Total Popu- lation	Urban Popu- lation	Rural Popu- lation
1965	725.38	101.70	623.68	725.38	130.45	594.93	0	+ 28.75	- 28.75 ^a
1975	919.70	111.71	807.99	924.20	160.30	763.90	+ 4.5 ^b	+ 48.59	- 44.09 ^a
1978	958.09	119.94	838.15	962.59	172.45	790.14	+ 4.5 ^b	+ 52.51	- 48.01 ^a
1980	982.55	134.13	848.42	987.05	191.40	795.65	+ 4.5 ^b	+ 57.27	- 52.77 ^a
1981	996.22	138.70	857.52	1,000.72	201.71	799.01	+ 4.5 ^b	+ 63.01	- 58.51 ^a
1982				1,015.90	211.31	804.59			
1983				1,027.64	241.50	786.14			
1984				1,038.76	331.36	707.40			
1985				1,050.44	384.46	665.98			
1986				1,065.29	441.03	624.26			
1987				1,080.73	503.62	577.11			

Sources: State Statistical Bureau, ed., *Zhongguo tongji nianjian* [China statistical yearbook] (Beijing: Zhongguo-tongji-chubanshe), 1981 and 1987 editions.

^a The population having rural registry living in urban areas can be obtained by (b) - (A) because of the following: the *Zhongguo tongji nianjian, 1981* does not include urban residents having rural registry but the yearbook's 1987 edition includes them.

^b This increase was due to the inclusion of active service military personnel in the statistics beginning in that year (*Zhongguo tongji nianjian, 1983*, p.103).

Moreover, those who live in urban areas but are excluded from grain rations because of their rural registry are not a negligible number. According to this author's estimates (Table 1-4), urban residents with rural registries totaled 28,750,000 in 1965, 48,010,000 in 1978, and 58,510,000 in 1981. They consist of (1) farming households either doing farming only or doing sideline jobs in the suburbs of cities, (2) temporary workers and their dependents in cities who have quit agriculture and are not entitled to food rationing, and (3) self-employed persons and their dependents. These people accounted for 22.0 per cent, 27.8 per cent, and 29 per cent of the total urban population in 1965, 1978, and 1981, respectively.

The welfare benefits the urban registered population has enjoyed can be seen as an expression of egalitarianism. But to the workers and farmers with rural registry who have been excluded from these, the same system has been one that ensures special and exclusive privileges for regular urban staff and workers. Nor has egalitarianism ever been thoroughly implemented even among the strata of people who are covered by this welfare system.

There are disparities in welfare benefits between the state-owned sector and the collective sector in the urban areas. The staff and workers in the collective sector represented 12.7 per cent, 24.7 per cent, and 21.6 per cent of the state-

sector staff and workers in 1958, 1965, and 1978, respectively.

During the Cultural Revolution, a drive was carried out to "raise" collective-owned urban industrial enterprises to state-owned enterprises. For instance, 60 of the 110 collective-owned factories under the Beijing Municipality Second Industrial Bureau were changed to state ownership.

Of the collective-owned enterprises, large ones were categorized as "*dajiti*," or major collective-owned enterprises. They were controlled by county or city departments in conformity with the management system of state-owned enterprises. The profit distribution and investment of these collective enterprises were directed by the local government departments in charge of them. The government department in charge also intervened not only in the procurement of raw materials and the production and sale of products, but in personnel, funding, and inventory management as well.

While the urban collective-owned enterprises thus were subject to the same regulations and production quotas as state-owned enterprises, they were grossly discriminated against when it came to benefits. The government departments handling allocation of raw materials, equipment, and energy followed the principle of "state-owned enterprises first and collective-owned enterprises later." When material supplies were short, they were preferentially provided to state-owned enterprises.³⁹

Where the same kind of commodities were sold in both state and collective commercial shops within the same market area, the latter was expected not to set the retail prices of their products higher than the former official prices.⁴⁰

Among the collective-owned enterprises, small ones are categorized as "*xiaojiti*" (minor collectives). In urban districts they are also called "*jiedao gongchang*" (neighborhood factories). Neighborhood factories arose in 1958 out of the efforts of "neighborhood committees" (*jiedao jumin weiyuanhui*) to organize women and other residents in residential quarters into factories. Later the neighborhood factories began to function as absorbers of unemployed urban youth.⁴¹ The Ministry of Water Resources and Electric Power regarded neighborhood factories as unproductive and only grudgingly supplied them with power. Moreover they were charged higher power fees than state-owned enterprises.

In employment, too, the collective factories were often burdened with obligations that the state-owned enterprises were exempted from, such as obligatory hiring of unemployed persons, physically disabled persons, and vagrants.

The collective factories also had to conform with the wage table and promotion system of the state-owned enterprises. Moreover, there was even a provision that collective factory wage, welfare, and intra-firm benefit levels were to be lower than those for state-owned enterprises. The collective-owned enterprises were also subdivided into different levels. According to the rules, wages at minor collective were to be lower than those at major collectives. There were also differentials in the amount of grain provided during the Spring Festival to the state-owned enterprises, major collectives, and minor collectives.

Regular Employees and Temporary Workers

As mentioned above, there was a portion of the staff and workers in the urban and state sector that was excluded from welfare and fringe benefits including grain rationing. In order to clarify the actual situation of this inequality, I would like to discuss China's classification of staff and workers.

The state sector has the following four parallel forms of employment:⁴²

(1) Regular employment (*guding zhigong*)

Regular employees are those who are hired by enterprises and other bodies with the official approval of the Ministry of Labor and other administrative agencies and in accordance with the government's labor allocation program. Once hired, such employees can work for the enterprise or body involved until retirement age no matter what their performance, unless they commits a serious misbehavior.⁴³

(2) Temporary employment (*lingshi zhigong*)

Temporary employees are those who are temporarily hired under a contract signed with the employer on the basis of the government's labor allocation program. They can be fired on expiration of the contract. They are mainly engaged in seasonal or temporary production work or services. Prior to the Cultural Revolution, they were called "contract employees" (*hetongzhi zhigong*). But unlike the new "contract employees" since 1980 (as related below), these contract employees are not covered by unemployment insurance, nor can they enjoy welfare measures and fringe benefits.

(3) Extra-plan employment (*jihuawai yonggong*)

Extra-plan employees are those who are directly recruited and hired by state-owned enterprises beyond the personnel strength allocated to them under the government's labor allocation plan.

(4) Contract employment (*hentongzhi zhigong*)

This is a new type of employment that emerged as part of the employment system reform in 1980. The new system began to be fully implemented in the fall of 1986. Under this system the enterprise holds examinations for applicants, and those who have passed the exam sign a contract with the employer. These employees are different from the above-mentioned temporary workers in that they are guaranteed the same rights as the regular employees. But they must renew their contract after expiration of the original contract term. When they are fired, they are entitled to unemployment insurance benefits, but the benefits are only 50–70 per cent of their basic wage. They are not treated as well as regular employees in welfare, fringe benefits, and housing.⁴⁴ Contract workers include "rotation workers" who are hired for mines, transportation, and railway services (on the basis of contracts concluded between the state-owned enterprises and rural production brigades or villages under which workers serve in rotation so as to avoid the negative influences of injurious and heavy work). Also included in this category are peasants who are hired for construction

projects as contract workers. However, the contract workers hired before the Cultural Revolution and those peasants not hired under the contract employment rules are not counted as contract workers in compliance with this category.

Of the four types of employees, (1) and (4), namely the regular employees and contract employees, are considered to be beneficiaries of social security, welfare, and fringe benefits. Categories (2) and (3), namely temporary employees and extra-plan employees, are excluded from these benefits. The difference between temporary employees and extra-plan employees is that the former are hired with the approval of provincial governments and are integrated with government labor allocation plans while the latter are not counted in government plans. In Japanese categorization, both would belong in the category of temporary workers. Table 1-5 gives a breakdown of state-sector employees into three groups by the form of employment: regular employees, temporary employees (including extra-plan employees), and contract workers of the new type.

The table shows that during the Great Leap Forward and the early 1970s decentralization period, peasants were encouraged to take up urban jobs and temporary workers were promoted to the status of regular employees.

The central government in a decision taken in June 1958 permitted each local government to recruit workers with only the provincial government's approval and without the need to secure the central government's approval. This decision expanded the employment of peasants in urban areas.

The number of staff and workers in the state sector increased by 25,932,000 in the three years from 1958. Fifty-five per cent of the 26 million added to urban employment, or 14,300,000, came directly from the rural areas. This number was equal to 72 per cent of the newly hired work force in rural areas during that same period.⁴⁵ In the single year of 1958, the urban work force jumped by 20,827,000, including 11,055,000 regular employees and 9,762,000 temporary workers. In the following year, the number of temporary workers in the state sector decreased by 1,884,000 and regular employees grew by 2,169,000. The total work force in the state sector that year did not change significantly. This clearly indicates that a vast number of temporary employees became regular employees that year.

During the Great Leap Forward, the urban population increased explosively together with urban employment. The urban population increment amounted to a staggering 30 million. The share of the population receiving commodity grain supplies also rose from 15 per cent in 1957 to 20 per cent in 1960. Furthermore the consequent increase in total wages paid tightened the demand-supply ratio for consumption goods.⁴⁶ During the following period of economic adjustment, 20 million state-sector staff and workers were returned to the rural areas. Most of the returnees were believed to be temporary workers.

As Table 1-5 shows, the staff and workers in the state sector who lived in mining or urban areas increased by 9,830,000 in the two years of 1970–71 (by four million in the county-managed industries). Of these, six million were hired

TABLE 1-5
COMPOSITION OF STATE-SECTOR SAFF AND WORKERS

(1,000 persons)

Year	Total Number	Regular Employees	Temporary Employees			New Type Contract Workers
			Total	Temporary Workers and Contract Workers	Extra-Plan Employees	
1949	8,004					
1950	10,239					
1951	12,815					
1952	15,804					
1953	18,256					
1954	18,809					
1955	19,076					
1956	24,230	21,230	3,000			
1957	24,506	22,486	2,020			
1958	45,323	33,541	11,782			
1959	45,608	35,710	9,898			
1960	50,438	42,610	7,828			
1961	41,712	37,579	4,133			
1962	33,091	30,585	2,506			
1963	32,931	30,746	2,185			
1964	34,650	32,039	2,611			
1965	37,380	33,761	3,619			
1966	39,340	34,230	5,110			
1967	40,060	34,440	5,620			
1968	41,700	35,960	5,740			
1969	43,350	37,580	5,770			
1970	47,920	41,260	6,660			
1971	53,180	46,441	6,739			
1972	56,100	52,650	3,450			
1973	57,581	53,290	4,191	2,481	2,481	1,710
1974	60,070	54,331	5,739	2,319	3,420	
1975	64,269	56,420	7,840	2,710	5,130	
1976	68,600	58,891	9,709	2,869	6,840	
1977	71,963	60,640	11,320	2,773	8,540	
1978	74,514	62,784	11,730	2,687	9,043	
1979	76,928	65,226	11,702	2,580	9,122	
1980	80,193	68,410	11,783	2,093	9,690	
1981	83,722	71,765	11,957	1,990	9,967	
1982	86,300	74,119	12,181	2,158	10,023	
1983	87,714	75,521	12,193	2,722	9,471	1,745
1984	86,371	73,695	12,676	3,918	8,758	3,157

Source: *Zhongguo laodong gongzi tongji ziliao* [Chinese labor and wage statistical materials] (Beijing: Zhongguo-tongji-chubanshe, 1987), pp.26–35. The figures for the total population of temporary employees in 1956 from: Ma Wenrui, “Guanyu ‘Guowuyuan guanyu gedanwei cong nongcunzhong zhaoyong lingshigong de zangxing guiding’ de shuoming” [Explanation on “State Council’s temporary provision for recruiting temporary workers from rural areas by state-owned units”], *Laodong*, 1958, No.1, p.4.

Note: As of the end of the years.

from the rural areas. This figure was far larger than what the government plan had set. In 1970–71, for instance, the government planned to hire 3,060,000 new recruits altogether, but the actual increment reached 9,830,000. They included 8,861,000 regular employees and 969,000 temporary workers. For this reason both total wages paid and the commodity grain sold turned out to be larger than planned (up 2 per cent and 7.7 per cent respectively from the planned levels in 1971).⁴⁷

In 1972 the government slashed employment to the planned level. The groups targeted for cutbacks were temporary employees recruited from the rural areas in 1970, “*mingong*” hired year-round the year for capital construction (peasants the government mobilized for construction work at low or no wages), and those who had illegally entered cities. With this measure the urban population entitled to commodity grain rations plummeted by five million. In 1973 and 1974, 1,700,000 more returned to the rural areas.⁴⁸

While the overwhelming majority of the staff and workers in the state sector are regular employees, temporary workers also play a significant role. The percentage of temporary workers within total state-sector employment peaked in 1959 at 26 per cent. It was 13.9 per cent in 1970.

Temporary workers by and large do not do skilled work and instead engage in dangerous, heavy, and dirty work which regular employees shun. This is why Chinese state-owned enterprises employ a vast number of temporary workers even when they suffer from a surplus of regular employees.⁴⁹ A source not covered in Table 1-5 reports that in 1971 there were more than nine million temporary and rotation workers all over the country. If true, the number of temporary workers would be far more than statistically shown. Of the nine million, only 2.5 million were engaged in work of a temporary or seasonal nature. Seventy per cent, or 6.5 million, were doing permanent jobs though they were still called temporary workers.⁵⁰

In 1958 “a double-track labor system” was proposed. This was to apply the old system to veteran workers and the new system to newly hired workers. The traditional system thus was to apply to the regular employees who would be retained on the job while temporary workers would be hired and released as the enterprise needed them. This double-track system was also to promote the “labor system for being both worker and peasant” under which temporary workers could go back to their home villages during the busy season for agriculture. This plan was put into practice in a few provinces but fizzled out as the Great Leap Forward drove ahead.⁵¹ As was earlier said, a large number of temporary workers were promoted to regular employees during the Great Leap Forward.

The “labor system for being both worker and peasant” was again tried in 1964. But as the Cultural Revolution began, “the double-track labor system” came under fire. A campaign for the promotion of temporary and subcontract workers to the status of regular employees again gained ground.⁵²

In conventional studies this “labor system for being both worker and peasant” has been understood as a characteristic aspect of the Chinese socialist model. But it should be remembered that precisely during the Great Leap Forward and the Cultural Revolution, undoubtedly the periods that manifested the Chinese model under Mao Zedong’s leadership, this labor system came under criticism. Though this occurred only in the state sector, it should nevertheless be remembered that during the Great Leap Forward and the Cultural Revolution there was a campaign for changing the status of temporary employees to regular employees.

These moves for the mass employment of peasants in the state sector and for the promotion of temporary workers to regular employee status during the Great Leap Forward and the Cultural Revolution were certainly motivated by egalitarianism. This aimed at allowing peasants and temporary workers to share in the same privileges enjoyed by urban employees. However, this attempt eventually failed because the expanding range of population enjoying urban privileges led to undue increase in wage payments and in the amounts of rationed grain and other consumption goods which in turn caused fiscal deficits.

In the 1970s the number of temporary employees again began to increase as Table 1-5 illustrates. The new contract worker system introduced in 1980 addressed the need for enterprises to have a temporary worker-like labor force. The new system also was intended to undermine the privileges regular employees automatically enjoyed until their retirement in order to remedy the problem of “disguised employment” which state-owned enterprises generally suffered from. During the Great Leap Forward and the Cultural Revolution, efforts were made to overcome the existing inequalities by extending the privileges enjoyed by urban employees to peasants flowing into cities. In contrast, the present economic reform strives to “equalize competitive conditions” (which differs from the equality of actual incomes) for all by reducing the sizes of the privileged strata of working people.

Summary

Under the old system which lasted until 1978, China had the institutional framework wherein the economy was centrally and administratively managed. That system was able to contribute to Chinese economic development. By exercising central control over the distribution of resources such as funds, goods, and labor force, China was able to achieve a high rate of accumulation and thus to industrialize. China had inherited from the past a number of negative factors, such as a low level of income which threatened many people with hunger, enormous population pressure, wide regional disparities, undeveloped transportation and communication, rural autarky economy, and high illiteracy. Burdened with such negative factors, China had to struggle to achieve along for economic construction. The socialist ideology based on Soviet orthodoxy, international isolation

in the 1960s, and the national priorities given to military strategy were other factors that strengthened the centralized and administrative system of economic management.

At the same time, however, the economic realities under this centralized and administrative management system were developing on a collision course with the dominant institutional framework. Centralization soon reached its limits in the area of planning management, and this led to decentralization attempts toward the end of the 1950s and in the early 1970s. But both of these attempts stayed within the framework of administrative control. Both centralization and decentralization within this framework proved dysfunctional.

The system dysfunction became more apparent by the mid 1970s. The importance of centralized control in the allocation of producer goods diminished. In public finance, extra-budgetary funds not incorporated with the state budget began to expand rapidly. In the area of labor and distribution management, the number of temporary workers and extra-plan employees also began increasing rapidly, generating contradictions with the regular employees who were given ample protection under the government's labor control policy. The shift to the new economic reform policy in the late 1970s was prompted by the contradictions between the institutional framework and the economic realities that surfaced during the middle of the decade.

Notes

This chapter is originally published in Japanese as "1970-nendai made no Chūgoku keizai kanri" [China's economic management until 1970s], in *Mō Takutō jidai no Chūgoku* [China in the Mao Zedong period], ed. Kazuko Mōri (Tokyo: Japan Institute of International Studies, 1990).

- 1 Włodzimierz Brus, *Shakaishugi keizai no kinō moderu* [Functional models of socialist economy], trans. S. Tsuruoka (Tokyo: Gōdō—shuppan, 1971), pp.108–17. Japanese edition of *Ogolne problemy funkcjonowania gospodarki socjalistycznej* [General problems of economic functions of socialism] (Warsaw: P.W.N., 1961)
- 2 Tamio Shimakura and Nobuo Maruyama, *Chūgoku keizai no jilemma* [Dilemma of the Chinese economy] (Tokyo: Yūhikaku, 1983), p.198; Kazuo Yamanouchi, *Gendai Chūgoku no keizai kaikaku*, [Economic reform in modern China] (Tokyo: Gakuyō-shobō, 1988), pp.6–10.
- 3 Nicholas R. Lardy, *Economic Growth and Distribution in China* (Cambridge: Cambridge University Press, 1978), pp.32–36.
- 4 Kyōichi Ishihara, *Chūgoku keizai kaikaku eno shiron* [Hypothetical approach to Chinese economic reform], in *Masubuchi Tatsuo taikan kinen ronshū, Chūgoku-shi ni okeru shakai to minshu* [Tatsuo Masubuchi memorial essays: Society and common people in Chinese history] (Tokyo: Kyūko-shoin, 1983), pp.313–15; Lu Daosheng, "Liangshou liangfang' ji qi jingyan jiaoxun" ["Twice centralization, twice decentralization" and its empirical lessons], *Wenhuibao*, April 20, 1983.

- 5 Jin Yan, "Jianchi gaige de zhengque fangxiang" [Adhere to the right direction for reform], in *Guomin jingji yu guanli*, 1983, No.10, p.91.
- 6 The policy for trust formation was proposed in August 1964. It was written under Liu Shaoqi's instruction by the leading Party group of the State Economic Commission. The trusts proposed included the Tobacco Corporation and Salt Corporation under the Ministry of Light Industry, the East China Coal Industrial Corporation under the Ministry of Coal Industry, the Automobile Industrial Corporation under the First Ministry of Machine-Building Industry, the Tractor and Diesel Engine Parts Corporation under the Ministry of Agricultural Machinery Industry, the Textile Machinery Corporation under the Ministry of Textile Industry, the Aluminum Industrial Corporation under the Ministry of Metallurgical Industry, the Rubber Industrial Corporation and the Pharmaceutical Industrial Corporation under the Ministry of Chemical Industry, the Geological Machine and Instrument Corporation under the Ministry of Geology, the Beijing, Tianjin, and Tangshan electric corporations under the Ministry of Water Resources and Electric Power, and the Changjiang Shipping Corporation under the Ministry of Communications. Added to this list in April 1965 were the Petroleum Industrial Corporation, Instrument and Apparatus Industrial Corporation, and the Timber Work Corporation. (Fang Weizhong, ed., *Zhongguo renmin gongheguo jingji dashiji* [The People's Republic of China economic chronicle] (Beijing: Zhongguo-shehuikexue-chubanshe, 1984), pp.379–92.
- 7 Luo Yuanming, "Woguo jingji guanli tizhi de gaige," *Guomin jingji jihua yu guanli*, 1983, No.5, p.88.
- 8 Zhou Taihe, ed., *Dangdai Zhongguo de jingji tizhigaige* [Contemporary China's economic reform] (Beijing: Zhongguo-shehuikexue-chubanshe, 1984), pp.70–72.
- 9 Luo, "Woguo jingji," p.89.
- 10 Zhou, ed., *Dangdai Zhongguo*, p.76.
- 11 He Jianzhang and Wang Jiye, ed., *Zhongguo jihua guanli wenti* [Problems of China's planning management] (Beijing: Zhongguo-shehuikexue-chubanshe, 1984), p.64, and Luo, "Woguo jingji," p.89.
- 12 Fang Weizhong, ed., *Zhongguo renmin*, p.379.
- 13 Shigeaki Uno, Kōji Kobayashi, and Susumu Yabuki, *Gendai Chūgoku no rekishi* [History of modern China] (Tokyo: Yūhikaku, 1986), p.221.
- 14 Tomoyuki Uchida, "Kōtsū un'yu seido no kaikaku" [Reform in transportation and communication systems] in *Chūgoku no keizai kaikaku* [Economic reform in China], ed. Reetsu Kojima (Tokyo: Keisō-shobō, 1988), p.118.
- 15 Jin, "Jianchi gaige," p.93.
- 16 Zhou, ed., *Dangdai Zhongguo*, pp.142–43.
- 17 Kornai János (translated and edited by Tsuneo Morita), *Keizai kaikaku no kanōsei* [Possibilities of economic reform], trans. and ed. Tsuneo Morita (Tokyo: Iwanami-shoten, 1986), p.27; Kornai classifies socialist models into the following four: IA—direct bureaucratic regulation, IB—indirect bureaucratic regulation, IIA—controlled market regulation, and IIB—liberalized market regulation. Kornai participated in an international symposium on macroeconomic management held on board the Changjiang River sightseeing ship Bashan in September 1985, and pointed out that China after the economic reform was at IB stage and heading for IIA. (*Shijie jinji daobao*, October 10, 1985)

- 18 Zhou, ed., *Dangdai Zhongguo*, pp.233–34.
- 19 Based on his case study, William A. Byrd pointed out that the supply problems were so complex for local or provincial authorities that central ministries retained production, input allocation, and output distribution (William A. Byrd, “The Shenyang Smelter: A Case Study of Problems and Reforms in China’s Nonferrous Metals Industry,” World Bank Staff Working Papers, No.766 [Washington, D.C.: The World Bank, 1985], pp.30–35).
- 20 Zhou, ed., *Dangdai Zhongguo*, pp.141–42.
- 21 Ibid., pp.136–37.
- 22 Jin, “Jianchi gaige,” p.94.
- 23 He and Wang, ed., *Zhongguo jihua*, p.147.
- 24 In April 1985, the “Xiang (zhen) caizheng guanli shixing banfa” [Internal procedures of village and township fiscal management] was promulgated. This provided for a four-level management system, that is, (1) the central level, (2) the provincial, municipal, and autonomous-region level, (3) the city and county level, and (4) the township and town level. (Minoru Nambu, “Zaisei kin’yū” [Public finance and banking], in *Chūgoku sōran* [Tokyo: Kazankai, 1988], p.349).
- 25 Cao Guoqing and Weng Jiquan, “Shanghai caizheng tizhi gaige chutan” [Preliminary investigation on Shanghai’s fiscal reform], in *Fuyin baokan ziliao—caizheng jinrong* [Copied materials of newspapers and magazines—public finance and banking], 1982, No.3, p.31.
- 26 In the two remaining provinces, the budgets are balanced (Sun Xuewen, “Woguo yinggai shixing ‘daquan jizhong xiaoquan fensan’ de jingji tizhi moshi” [Our country should practice the economic system called ‘centralizing major powers and decentralizing minor powers’], in *Fuyin baokan ziliao—guomin jingji jihua yu guanli* [Copied materials of newspapers and magazines—national economic plan and management], 1983, No.9, p.49).
- 27 Zhou, ed., *Dangdai Zhongguo*, p.219.
- 28 Du Lengfeng, *Zhongguo shehui zhuyi caizheng guanli* [China’s socialist fiscal management] (Tokyo: Zhongguo-renmin-daxue-chubanshe, 1984), p.48.
- 29 Akira Fujimoto, *Shin-Chūgoku no kokka zaisei no kenkyū* [Studies on state finances of new China] (Tokyo: Yūhikaku, 1981), p.51.
- 30 Zhao Xiaomin, ed., *Caimao jingji tizhi gaige yanjiu* [Research on the reform of financial and commercial economic system] (Beijing: Zhongguo-zhanwang-chubanshe, 1985), pp.32–34.
- 31 Wang Haibo, ed., *Shin Zhongguo gongye jingjishi* [New China’s industrial economic history] (Beijing: Jingji-guanli-chubanshe, 1986), pp.292–93.
- 32 Ma Hong, ed., *Zhongguo jingji yu guanli rumen* [Elementary course of Chinese economy and management] (Yunnan-renmin-chubanshe, 1986), p.88.
- 33 Li Fuyu, “Woguo yusuanwai zijin de yixie wenti” [Some problems on the extra-budgetary funds in our country], *Fuyin baokan ziliao—caizheng-jinrong* [Copied materials of newspapers and magazines—public finance and banking], 1983, No.8, p.54.
- 34 Liu Xin and Hou Xiaozhong, “Guanyu jiaqiang yusuanwai zijin guanli de tantao” [Investigation on reinforcing the management of the extra-budgetary funds], *Fuyin baokan ziliao—caizheng-jinrong* [Copied materials of newspapers and magazines—public finance and banking], 1982, No.4, p.46; Zhang Feng and Ge Tianming, “Dui

- yusuanwai zijin yao jiaqiang hongguan kongzhi” [We should reinforce the macro control of the extra-budgetary funds], *Jingji guanli*, No. 6, pp.22–23.
- 35 Xu Yi, “Lun jingji tizhi gaige he jingji ganggan de tiaojie zuoyong” [On economic reform and the regulatory role of economic power], *Caizheng yanjiu*, 1981, No.6, pp.1–15.
- 36 Guojia-caizheng-gailun-bianxiezu, “Guojia caizheng gailun” [An introduction to public finance] (Beijing: Zhongguo-caizheng-jingji-chubanshe, 1984), p.92.
- 37 Yao Shuben, *Sanshiwu-nian zhigong gongzi fazhan gaishu* [An outline of the development of staff and workers’ wages for thirty-five years] (Beijing: Laodong-renshichubanshe, 1986, p.305.
- 38 Midori Kizaki, “Kigyō no jūgyōin ni taisuru bunpai to kaikaku” [Distribution to employees by enterprises and the reform], in *Chūgoku no keizai kaikaku*, ed. Kojima, p.46.
- 39 Wang, ed., *Shin Zhongguo*, pp.359–60.
- 40 Ji Long et al., *Shehui zhuyi jiage wenti yanjiu* [Research on the socialist price problems] (Beijing: Zhongguo-shehuikexue-chubanshe, 1983), p.104.
- 41 Cai Beihua and Xu Zhihe, ed., *Jingji da cidian, gongye jingji juan* [Economic dictionary, the volume on industrial economy] (Shanghai: Shanghai-cishu-chubanshe, 1983).
- 42 Ma Hong, ed., *Xiandai Zhongguo jingji shidian* [Contemporary China’s economic cyclopaedia] (Beijing: Zhongguo-shehuikexue-chubanshe, 1982), p.517; State Statistical Bureau, ed., *Zhongguo tongji nianjian, 1988* [Statistical yearbook of China, 1988] (Beijing: Zhongguo-tongji-chubanshe, 1988), p.206; *Laodong gongzi tongji ziliao* [Statistical materials on labor and wage] (Beijing: Zhongguo-tongji-chubanshe, 1987), p.268.
- 43 Ma, ed., *Zhongguo jingji*, p.579.
- 44 Yūko Akiyoshi, “Rōdō” [Labor], in *Chūgoku sōran*, p.282.
- 45 He and Wang, ed., *Zhongguo jihua*, pp.547–48.
- 46 Zhou, ed., *Dangdai Zhongguo*, p.75.
- 47 Wang, ed., *Shin Zhongguo*, pp.379–80. Based on Zhu Rongji, ed., *Dangdai Zhongguo de jingji guanli* [China’s economic management] (Beijing: Zhongguo-shehuikexue-chubanshe, 1985), pp.367–68, the number is claimed to have increased by 7,300,000 in 1970–71.
- 48 Wang, ed., *Shin Zhongguo*, pp.339–41.
- 49 As expressions of the chaotic situation over the hiring of temporary workers in 1957 the following are cited: (1) temporary workers were recruited when there were surplus regular employees, and (2) temporary workers hired without contracts or hired on a short term basis were made to work over a long time, thus making contractual arrangements meaningless. For details, see Kyoichi Ishihara, “Toshi to nōson tonoshūnyū kakusa” [Income disparities between the city and countryside], in *Chūgoku no toshika to nōson kensetsu* [Chinese urbanization and rural construction], ed. Reitsu Kojima (Tokyo: Ryukei-shosha, 1987), pp.160–61.
- 50 Zhou, ed., *Dangdai Zhongguo*, pp.146–47.
- 51 Ma, ed., *Xiandai Zhongguo*, p.517.
- 52 Zhou, ed., *Dangdai Zhongguo*, pp.146–47. It is said that Liu Shaoqi proposed the “double-track labor system.” He first presented the plan at the enlarged conference of the Political Bureau of the Central Committee of the Communist Party of China

in May 1958. He again proposed it at the working conference of the Central Committee of the CPC in May-June 1964 (Tsuneto Yamamoto, "1960 nendai ni okeru rōdō, kyōiku, kahō no sammi-ittai-teki seisaku tenkai to sono hasan" [The development of the trinity policy of labor, education, and rustication in the 1960s and its failure], *Gendai Chūgoku no zassetsu* [Failure of modern China], ed. Mitsuyuki Kagami [Tokyo: Institute of Developing Economies, 1985], p.149). According to Yamamoto, Zhou Enlai encouraged the promotion of temporary workers to regular workers in a State Council's notice (Guowuyuan tongzhi) in 1963. Liu Shaoqi countered this move by issuing an instruction in 1964 in favor of more temporary employees and less regular employees. Ma Wenrui, then Minister of Labor, is said to have tried to implement Liu's instruction.