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SPECIAL REPORT

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ECONOMIC THINKING AND PRACTICE IN COMMUNIST CHINA

CENTRAL INTELLIGENCE AGENCY

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ECONOMIC THINKING AND PRACTICE IN COMMUNIST CHINA

Ever since the collapse of the Great Leap Forward in mid-1960, the Chinese Communists have been trying to live down a reputation as impractical radicals. They no longer resort to crash programs, reverting instead to the comparatively moderate methods of management practiced in 1957. Their search for solutions to pressing economic problems has gone through three distinct phases. The first was a period of retrenchment in late 1960 and in 1961. A liberal phase in economic thinking began early in 1962. Reaction against liberalism led to a tightening of controls after September 1962. No radical change in either direction now seems likely.

The Basic Economic System

The basic elements of the economic system that existed in 1957 have by now been restored.

In agriculture, now as in 1957, reliance is placed on small collective farms to grow the main crops. These were called agricultural cooperatives in 1957. Today the key collective unit is the production team, the lowest level of administration in the commune organization. Teams must deliver most of their produce to the state in the form of taxes or sales at low prices. Peasants are encouraged to use their spare time to cultivate small private plots, and are permitted to market their produce at rural trade fairs and at farmers' stalls in cities. As in 1957, private plots now account for most of the nation's production of pork, chickens, and probably vegetables.

Industry in Communist China is almost entirely owned by the state. As in the USSR, central (or regional) planners allocate the capital, labor, and important raw materials needed by industrial enterprises to carry out assigned output plans.

Now recognizing that good statistics are needed for sound planning--a point neglected during the Leap Forward--Peiping has undertaken major efforts since 1960 to rebuild the statistical reporting setup. Similarly, the regime has tightened financial supervision through the state budget and the banking system, and has ordered enterprises to adopt and follow regular business accounting practices.

While this has improved efficiency, problems caused by unrealistic prices remain. Prices are established by the state and changed only at infrequent intervals. They seldom reflect either the full cost or relative scarcity of raw

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materials and capital. It is therefore difficult for planners to allocate and managers to use such items on a rational basis.

Retrenchment

The threat of widespread famine and popular uprisings that developed late in 1960 resulted in a complete overturn of economic programs. The Chinese Communists felt compelled to shift to a "consumption first" policy that entailed reduced emphasis on heavy industry and the expenditure of scarce foreign exchange for food imports. Factories tried to correct Leap Forward mistakes, catch up on deferred maintenance, and re-establish 1957 standards of management.

In agriculture, there was a wholesale suspension of rural construction activities and the extremist farming methods of the Leap Forward. Most peasants in 1961 either cultivated the fields in the traditional manner or were left free to work on their newly restored private plots. By 1961, the commune had become a rather unimportant level of local government. Authority over farm production was delegated to lower levels of commune administration--production brigades and teams.

The Liberal Phase

In spite of their sweeping character, 1961 policies failed to bring a significant recovery in either industry or agriculture. This apparently convinced Peiping that an even further retreat was necessary. Starting in late 1961 and continuing through the summer of 1962, economists discussed--and the regime in part implemented--a wide range of policies more liberal even than those that existed in 1957.

This was a period of obvious indecision within the leadership. There was no firm direction over the economy. Industrial production continued to decline. Peiping's growing concern over peasant incentives was reflected in the reduction in size of the collective farm unit after January 1962 and in the encouragements given peasants to expand sideline activities, such as cultivating fishponds. There were reports in mid-1962 of experiments with private farming in Kwangtung and Anhwei provinces.

As the ranks of the urban unemployed grew, the regime allowed individuals to engage in peddling and service trades and to operate repair shops under license. In Shanghai doctors began resuming private

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practice. Political pressures on workers to participate in after-hours indoctrination sessions diminished.

During early 1962 the regime exhibited uncharacteristic concern for the good opinion of intellectuals, who by then had become thoroughly disillusioned with the party. Premier Chou En-lai toured the country trying to persuade scientists and intellectuals to continue working under party leadership. He admitted that high officials in the party had made mistakes, having been misled by exaggerated reports from below, but insisted that their intentions had been good.

Official encouragement to intellectuals to speak out more freely began to produce some lively debates. In the ranks of the economists, there was for a brief period some fairly uninhibited discussion on such controversial topics as the use of price and profit mechanisms to promote economic efficiency.

Suggestions that emerged during the economic discussion closely resemble "liberal" proposals that have been debated in the USSR in recent years and that have been adopted in part in Yugoslavia. The Chinese themselves admitted that this was the first time such ideas had received an extensive airing in Communist China.

The Chinese discussions brought forth many heterodox suggestions--e.g., to make and keep prices realistic, to direct investment according to criteria of profitability rather than political decision, and to have enterprises pursue a single unambiguous objective of maximizing profits. These are, in effect, proposals that market forces be allowed to play a larger role in the economy. One economist rebuked those who were prejudiced against profit because of its capitalist connotation. He invoked Mao's authority by quoting from a 1944 work in which Mao had said, "We cannot talk principles on an empty stomach."

The liberal proposals were published mainly in the nonparty press--a sign that they never enjoyed full party approval. Nevertheless, People's Daily did publish an article last July that presented the "tentative" view that profit and cost indexes were better criteria of success of enterprise performance than output and labor productivity indexes.

Also in July, Chen Yun, a liberal politburo member who has been inactive since registering public opposition to Leap Forward policies early in 1959, was quoted in an economic journal. A policy of pricing goods according to their quality, one of a number of liberal policies Chen Yun had espoused in 1956,

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was revived, with Chen explicitly cited as the authority. Chen was quoted as saying that this policy would encourage factories to produce higher quality goods.

The outspoken economic discussions and relaxation of economic controls encouraged hopes among intellectuals for further liberalization of the economic system. In August a rumor was circulating in Canton that Chou En-lai and Chen Yun had been strongly recommending a system of limited free enterprise.

Orthodoxy Reaffirmed

The hopes of the proponents of economic liberalization were dampened by the tenth party plenum held in September 1962. The communiqué issued on this plenum indicated that the party, having become less fearful about the economic situation, intended to tighten controls and restrict what it viewed as capitalist tendencies. The moderate approach of 1961-62 was to be continued, but the party clearly intended to stand by the orthodox totalitarian principles followed before the Leap Forward.

In September, Chinese Communist propaganda began placing new emphasis on the theme that China is a defender of the purity of Marxism-Leninism in domestic as well as international policy. Peiping stepped up its attacks on Yugoslavia for letting capitalism revive. It cited Yugoslav efforts to adopt price reforms, give enterprises more autonomy, and permit more private farming and handicraft industry--all measures liberal economists in China would approve.

One outgrowth of the tenth plenum was a nationwide "socialist education" drive directed against "bourgeois practices" and "capitalist tendencies." There are signs that this is being superseded by a more repressive "five-anti" campaign involving crackdowns on speculators and corrupt officials.

This does not mean a reversion to Leap Forward policies, but rather a commitment to the 1957 degree of orthodoxy. Regime pronouncements since the plenum have continued to stress the importance of good statistics, cost accounting, and realistic planning--within the framework of orthodox principles and subject to strong political control. Liberal institutions that existed in 1957, such as private plots and petty private trade, continue to be tolerated.

By its propaganda and actions since last September, the

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regime has made it clear that no major effort would be made to make prices realistic or to encourage enterprise managers to maximize profits at the expense of other assigned objectives. Enterprise managers will continue to lack the incentive and the information needed to combine inputs efficiently.

Economic research continues to be published, but little of it is controversial. The economists, who are constantly being told to combine theory with reality, have had it impressed on them that this means political as well as economic reality. For their research to be useful, they must accept the fact that the economy is directed by a large party apparatus led by men who have strong ideological prejudices and totalitarian convictions, and who will tolerate liberal policies only for reasons of temporary expediency.

Outlook

Since the tenth plenum, Peiping has been exhibiting general satisfaction with the country's basic economic institutions. It does not seem to be under any particular pressure to institute radical changes, either in the direction of a retreat or another Leap Forward.

The regime clearly does not intend to give up socialized agriculture, to which its ideological commitment is very deep. Yet concern over peasant incentives will inhibit any tendency to revive giant communes. There probably will be little change in the strongly centralized system of running industries. This system appeals to Chinese leaders because of its effectiveness in channeling resources to the regime's top priority objectives.

It is conceivable that future Chinese leaders may come to believe that their political ends would be better served by allowing the economic system to operate more freely--a possibility that has been predicted for the USSR. Nevertheless, the present leadership in China seems to believe firmly in the efficacy of tight political direction.

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