THE PORCELAIN RICEBOWL:

THE REVIVAL OF THE URBAN INDIVIDUAL ECONOMY IN THE PEOPLE'S REPUBLIC OF CHINA, 1978-84

By

LINDA HERSHKOVITZ

B.A., The University of Toronto, 1974
M.A., The University of California, 1981

A THESIS SUBMITTED IN PARTIAL FULFILLMENT OF

THE REQUIREMENTS FOR THE DEGREE OF

DOCTOR OF PHILOSOPHY

in

THE FACULTY OF GRADUATE STUDIES

(Department of Geography)

We accept this thesis as conforming
to the required standard

THE UNIVERSITY OF BRITISH COLUMBIA

October 1987

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Department of Geography

The University of British Columbia
1956 Main Mall
Vancouver, Canada
V6T 1Y3

Date 26 October, 1987

Abstract

This thesis concerns the rehabilitation of China's urban "individual economy" (small-scale private enterprise) in the transitional years 1978-84. After decades of suppression, the individual economy became an important feature of post-1978 economic policy, creating employment and reviving urban commerce and services. Despite unflagging support from central authorities, however, the growth of the sector was hampered by rigidities in a system designed to eliminate rather than accomodate private enterprise, by negative societal attitudes, and by opposition from basic-level cadres and agencies. All these problems stem from profound ambivalence about the role of private enterprise in what is meant to be a socialist economy. This study uses materials from published Chinese sources to examine the reasons for and manifestations of this problem, and explore its implications for the future of individual enterprise in China's cities.

The first chapter defines the terms of reference and issues to be considered, and outlines the dimensions of the sector, including growth patterns, occupational structure, and demographic characteristics. Chapter 2 outlines the evolution of policy toward the individual economy from 1949 to 1976; it also summarizes the economic problems of the late 1970s, the basic features of the post-1978 development strategy, and the place of the individual economy within it. Chapter 3 describes the development of central policy between 1978 and 1984, and Chapter 4 deals with issues of regulation and administration, focusing on discrepancies between central policy and local implementation.

Chapter 5 explores the socio-cultural reasons for these discrepancies, including societal attitudes, the interests and concerns of local cadres and agencies, the role of small peddlers in the traditional economy, and early Marxist attitudes toward small private trade. Chapter 6, a case study, shows how these issues converged in the case of one prominent entrepreneur. Chapter 7 examines discussions of the individual economy in the Chinese theoretical literature. The final chapter compares the Chinese experience with that of private trade in other socialist countries, and of small independent operators in other developing economies, and concludes by speculating on the future of small-scale private enterprise in the context of developing "socialism with Chinese features."

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CHAPTER I

INTRODUCTION

Foreword

In 1980, the Suzhou writer Lu Wenfu won a national award for a short story written in 1979, "The Man from a Pedlars' Family".[1] In a few pages it sums up the troubled history of small private entrepreneurs in the People's Republic of China (PRC). It also reflects a new attitude toward that history which has become official orthodoxy since 1979.

The narrator, a Mr. Gao, tells the story through a series of encounters with Zhu Yuanda, a wonton vendor. When they first met sometime in the late 1940s, Gao was an out-of-work university graduate who corrected students' compositions for a living. This is how he describes his first glimpse of Zhu Yuanda:

> I opened the long window facing the street, and looking down I spotted a light at the end of the alley. The light wavered on the white chalk walls, whizzing along like a spirit on night patrol. Gradually it became more distinct. It was a brightly lacquered wonton carrying pole. Steam was rising above the pole, while sticks of firewood burned in a stove. The pole carrier was Zhu Yuanda. At that time he was perhaps seventeen or eighteen, tall and thin. Beside him shuffled an old grey-haired fellow--his father. ... He'd very recently passed the carrying on to his son. Now he went on ahead striking the bamboo clapper, leading his son along the bumpy road he'd followed in his life that had enabled him to sell enough wonton.

Gao describes how, late at night in his unheated room, he would hear the bamboo clapper and go down to the alley to buy a steaming bowl of wonton. Zhu would tell him about the evening's business and boast about his canny sales techniques. "At that

time I didn't think that Zhu Yuanda was doing anything dishonest or that he was putting his profits ahead of everything else. ... If I was able to buy for his sake one more bowl of wonton we would be helping each other out like two fish in a drying pond trying to spew foam on one another."

After Liberation, Gao got a job as a cadre in an education department. He earned enough money to eat noodles in a heated restaurant, and stopped listening for the sound of Zhu Yuanda's clapper. He didn't notice when it stopped altogether:

> It was probably sometime after 1958 when being obliged to queue up at a noodle shop I suddenly recalled what I hadn't heard for a long time--the sound of that clapper in the dead of night. It seemed a shame, as though I was missing something. But ever since the anti-Rightists movement, I could hardly dare to keep up my old attachments. ... Socialism required a certain uniformity. It wasn't proper to have capitalist pedlars roaming the streets late at night. I was happy for Zhu Yuanda. He'd already broken free of his shackles and leapt into the torrent of the Big Leap Forward.

Actually Zhu was still peddling. He'd retired his clapper and was carrying a basket instead, selling bayberries in the spring, water chestnuts and lotus roots in the autumn, watermelon in the summer, and roasted sweet potatoes in the winter. "You could never know for certain what he would be selling. If someone in the courtyard had an unexpected guest, you'd always hear the housewife quietly ordering her husband to 'run down to Zhu Yuanda and see what he's selling.'" Gao, however, stayed away. "I believed that buying his things was aiding the spontaneous rise of capitalism."

One night during the anti-Rightist campaign, Gao was tempted to buy some of Zhu Yuanda's water chestnuts and lotus roots. "You can't get these at the state-run stores. They've a few but they can't compare with mine. ... They'd break your teeth." Gao decided to educate him. "His patter was exactly like that of the Rightists in my department. It was slandering socialism! I didn't want to be engaged in a 'struggle' with Zhu Yuanda. but I had to say a few words to help better the man." Gao warned him to watch out, "sooner or later everything that smacks of capitalism will be abolished." Zhu Yuanda laughed. "Relax. It can't be destroyed. There are people who want to buy and those who want to sell. If the state-run stores won't sell things, can you say capitalism will be abolished?" Zhu backed off, leaving Gao with "a taste of ashes in my mouth ... I simply couldn't understand how this great distance between us had come about."

A while later, Zhu came to see Gao. He needed his help in writing a self-criticism. What was he accused of? "Profiteering. What else could it be?" He wasn't repentant though. "I buy my shrimps at forty fen a catty and sell them at sixty. Take into account I'm up half the night running around ... and all I earn is two or three yuan. I know you won't like to hear this, but you earn more than I do and all you do is sit around and shoot the breeze." Gao was incensed and told him to get a proper job and reform his thinking; Zhu responded with a plaintive story of eight mouths to feed and no possibility of a well-paying job. In the end it was Gao who

> ... felt as though cold water had been thrown in my face. It was as though I had been standing at the top of a high building looking up at the wide and beautiful universe when suddenly I noted beneath me a dark mire, destroying my lofty feelings and dirtying my beautiful picture. I didn't dare say anything further. All I could do was to erect a barrier in my mind: this was an individual and temporary problem. There was no way I could find an out for this individual and temporary Zhu Yuanda.

He wrote the self-criticism for him. After that, Gao allowed his wife to buy delicacies from Zhu Yuanda. He felt vindicated during the economic crisis after the Great Leap, but only temporarily:

> During the difficult periods when the free markets were permitted, I rejoiced ... At that moment I knew for certain that he couldn't be a capitalist. But right afterwards there was a movement to adhere to the principles of class struggle. Then I would be confused. He really was a capitalist! I was in a terrible muddle.

Gao's confusion mounted when "The bugles of the 'cultural revolution' were sounded, announcing the end of all capitalism!" Gao himself was criticized "because I believed that one should work hard for one's monthly salary, not always be spouting jargon ... This had become pushing an extremely reactionary capitalist line." He decided the only defence was to lie low and "be just like everyone else." One night he passed Zhu Yuanda's door:

> It was wide open ... Standing on a bench in the poorly lit room was Zhu Yuanda, his arms hanging at his sides, his head lowered as though he were suspended there from something. His head was half shaved, his left cheek a dark purple, his eye above swollen to the size of a walnut. Next to the door had been stuck up a sheet of white paper on which was written, "Evil Den of Capitalism--Zhu Yuanda must bow his head and admit to his crimes! He has twenty-four hours to turn over the offending tools!"

Gao was shocked into noticing that not only had Zhu been attacked, so had the bread peddler, the hot water hawker, the

itinerant barber, and the cobbler. A day later the "evil den smashers" came back and trashed Zhu Yuanda's house. "Even from a distance you could hear the crying and the wailing, the sound of things being smashed and torn and the shouting of the morale boosting slogans." They destroyed his baskets, the basins used to make beansprouts, and finally the precious wonton cart,

> ... a miniature portable kitchen complete with cupboards, water tanks, wood shed, water canisters kept hot by surplus heat and storage compartments for salt, oil and spices. ... I actually thought of walking straight over there and rescuing the priceless artifact. But I didn't have the courage.

After this catastrophe, Zhu's wife and children started to collect old wall posters and sell the paper for scrap. "Who would have thought that those posters that had driven men insane and others to suicide could have rescued Zhu Yuanda from the flames? Life is truly a mystery!" But Zhu had finally seen the light. He told Gao:

> During the Big Leap Forward my wife and I should have managed to get into factory work. You wouldn't have to worry about looking after the little ones, you just drag them to the union office and beg for help. The Communist Party isn't going to let you starve to death. Hell no! ... I believed in myself too much. I always believed in bringing up my children by my own efforts ...

When "surplus" urban labour was sent to the countryside after the Cultural Revolution, Gao was spared, but Zhu and his family were sent down. Before they left, Zhu gave Gao a keepsake--his bamboo clapper. Off he went, along with the hot water hawker, the barber, and the cobbler. "From then on you had

to walk a mile to get hot water; it took twenty days to get your shoes mended. The old men had to queue up in the streets for a haircut."

Eight years later, Zhu returned to the city and came to see Gao. Gao assumed he wanted his clapper back. "After all at this time everyone was talking about 'social service' and the 'commercial network', 'hot water vendors', 'wonton carrying poles' and what have you. Zhu Yuanda had returned, so of course he'd be returning to his old line of work." Gao thought happily of the university students, the young workers studying at night to improve themselves, the old men who would now be able to buy a hot meal outside their own front door:

> They all feel keenly how much time they've lost and how little knowledge they have stored up in them. Their efforts are not for themselves alone. Their lives too demand that there be others bringing them warmth and convenience. It's taken me more than twenty years to learn this elementary principle.

But when Zhu showed up, it was to share his new good fortune:

> My two sons are back, They're in state-run units. The two girls are in the county now. In collectively-owned units. Then there's my youngest ... I want to see him go to university. Four iron rice bowls and one golden one. Everything's just right.

He wasn't about to go back into business. "To tell the truth, the labour unit also approached me about going back to my old line. I humoured them a little. I'm already working in a factory ... I do a little sweeping and I get by. It's far less trouble and worry than baking sweet potatoes." Now the tables were turned; Gao protested that it would be a shame if Zhu's son

didn't take up the carrying pole again. "Where's the shame in that?" Zhu demanded. "From now on I'm not taking a backseat to anyone." Gao insisted that Zhu had been "serving the people," to which Zhu retorted, "Still 'Serving the People'! That was petty capitalism! It was to be abolished! I nearly gave my life for that 'den of evil'!" He had come, he said, to ask for some review materials for his son to study for the university entrance exams.

Gao looked out the window, watching Zhu disappear down the street.

> I had been a little disappointed. But I hadn't dared say so in front of him. In these past years I and others had hurt him. We had attacked so much initiative. In the end all anyone wants to do is to hold that iron rice bowl in his cupped hands and avoid trouble and worry. By the end of the month that iron rice bowl can never be very full. And the rice in the pot will never be enough to go around.

Aims of the Thesis

Zhu Yuanda's story serves as an apt introduction to this thesis, concerned as it is with the revival of small-scale private enterprise in the cities of China after 1978. It examines the resurgence and development of this group of small-scale entrepreneurs in Chinese cities in the period between 1978 and 1984, a sector called in Chinese geti jingji--the individual economy.

The original objective of this thesis was to study the proliferation of small-scale private enterprise in China's cities after 1978, and its implications for economic development and urbanization in a socialist developing economy. This objective

stemmed from previous research done on what is often called the "informal sector" in the cities of developing countries of the Third World, and from observing the rapid growth of the analogous sector in China after controls were lifted in 1979, and the resultant impact on China's urban landscape. It quickly became apparent, however, that to do scholarly justice to this topic it would be necessary to delve into relevant issues of policy and its implementation, as well as ideology and theory. The discussion which evolved from this research is directed toward five basic aims.

The first aim is to trace the rehabilitation and resurgence of the individual economy in China's cities after 1978. This involves description of the general dimensions of the individual sector as it developed between 1978 and 1984, as well as tracing the development of central policy toward the sector and the evolution of regulations, administrative procedures, and institutions intended to translate that policy into practice.

The second aim is to arrive at an understanding of the reasons why the Chinese government has chosen to take advantage of the persistence and vitality of small-scale private activity to supplement an economy which is supposed to be dominated by socialist relations of production and which for so long held a generally negative view of the role of private ownership.

The third aim of the thesis is to identify the issues, tensions, and practical problems which affected the development of the individual economy, in the process of reviving the sector after three decades of suppression.

The fourth aim is to explore how the development of the individual sector may be incorporated into a general theory of socialist development and the role of small-scale private enterprise within it.

The fifth aim is to draw conclusions about the relevance of the Chinese experience to the study of the role of the small-scale independent sector in other developing economies.

Structure of the Thesis

To accomplish these aims requires a wide-ranging discussion of some very complex areas of policy, administration, and ideology. The discussion is structured so as to highlight the key issues surrounding the revival of the individual economy in China after 1978. The remainder of this introductory chapter defines the terms of reference and major issues to be discussed, and indicates the limitations of existing literature. It then outlines the dimensions of the individual sector as it developed between 1978 and 1984, and summarizes what is known of the demographic characteristics of China's urban self-employed.

Chapter Two is a discussion of the background to the post-1978 revival of the individual economy, describing the treatment of the sector from 1949 to 1978, and outlining the economic and political factors behind its revival after 1978.

The third chapter discusses the evolution of central policy toward the sector after 1978, and the fourth chapter shows how that policy was implemented by local-level administrative and regulatory agencies and their cadres. It highlights tensions and

discrepancies between the intentions of central policy-makers and the actual treatment of individual enterprises by basic-level cadres and agencies, and also the tensions between the two complementary and conflicting aims of promoting the development of the individual sector while at the same time controlling and regulating its activities.

This leads into a discussion of the sources of these tensions and contradictions in Chapter Five, and more generally, of the social and political status of small-scale independent entrepreneurs in what is supposed to be a system dominated by public ownership and central planning. Chapter Five also explores the historical roots of some of these issues, looking at the status of small-scale traders in the traditional Chinese economy, and the treatment of the small-scale private sector in the writings of Marx, Engels, Lenin, and Mao.

Chapter Six is a case study which illustrates how the issues raised in preceding chapters converged to influence the career of one private entrepreneur whose case has been extensively discussed in the Chinese literature.

Chapter Seven discusses some of the ideological implications of the revival of the individual economy, examining its treatment in China's post-1978 theoretical literature, particularly in the context of debates and controversies over such questions as the stages of socialist development, the structure of the socialist economy, and the relationship of the individual economy to capitalism.

The eighth and final chapter relates findings on the Chinese experience of revival of small-scale independent enterprise to the experience of other socialist economies and non-socialist developing economies. It concludes by considering the future of the individual economy in China, in the context of building what the current leadership calls "socialism with Chinese features."

Time Frame

The main focus of this thesis is the development of the urban individual economy in China during the six-year period from 1979 to 1984. These dates were not chosen randomly.

After the death of Mao Zedong in 1976 and the re-emergence of Deng Xiaoping, a great many of the policies associated with Mao and the so-called "gang of four" (the leadership core led by Mao's wife Jiang Qing) were gradually revised or dismantled, including the policy of eliminating such remnants of private ownership as the individual economy. The watershed in this course of events was the Third Plenum of the Eleventh Central Committee of the CCP, held in December 1978, which announced the end of the thirty-year period characterized by "class struggle" and the beginning of a new emphasis on economic development.

As a result, beginning in 1979 the individual economy, protected by central policy, began a new period of expansion and development. In the process, the Chinese urban economy underwent a remarkable transformation as small privately-owned shops, restaurants, workshops, and service enterprises proliferated in

the streets and markets of the cities, and as private transport companies brought more and more goods from the countryside to sell in urban stores and marketplaces.

By 1984 promotion of the individual economy had seemingly become an unshakeable feature of central government and Party policy. The commitment to the further development of the sector was reinforced by the announcement early in the year of policies intended to encourage farmers to leave agricultural production for nonagricultural occupations, including individual enterprises, in small cities and towns. In October 1984 the Third Plenum of the Twelfth Central Committee announced a plan for a new series of urban reforms, which reiterated the commitment to the development of the urban individual economy. The latter marks the formal end-point of this study. Beyond it, the individual economy continued to proliferate, but by the end of 1984 its basic course had been set and appeared likely to continue in the absence of any major change in central policy orientation.

Themes and Issues

Even before the Communist victory in 1949, China's cities were full of itinerant hawkers, small shops and handicrafts workshops, mobile foodstalls and repair services, and peasant markets. In the early years of the PRC, they continued to provide employment and supply necessary goods and services in the cities, and despite the accelerating collectivization of other

sectors of the economy, policy toward them remained lenient and even permissive. This approach changed, however, in the mid-1950s.

The reasons for the change have less to do with economic trends than with deliberate political and ideological choices about the future course of economic development, particularly urban development and the role of the petty private sector within it. Simple arguments about the supposed "anti-urbanism" of the communist regime do little to explain the change. To find an answer, we have to look at the conception of China's future economic and social structure held by Mao Zedong and other leaders of the Chinese Communist Party (CCP), and the reality from which they started.

Basically, the economic structure they were attempting to transform was described as an undeveloped, "semi-feudal, semi-colonial" economy dominated by agrarian small-producers. The goal was a replica of the only working model available to them, the Soviet model of an economy based on large-scale, modernized, collectivized, planned production. To achieve that goal meant eradicating many of the dominant features of the existing economy. "Large-scale" called for the elimination of petty enterprise; "modernized" meant the eradication of "traditional" or "backward" elements; "collectivized" implied the eradication of all forms of private ownership of the means of production; "planned" called for the elimination of forms of production and exchange that couldn't be neatly accomodated in the central planning process; and "production" implied a bias

against the "non-productive" commercial and service sectors. On all counts, it spelled the death-knell for petty private enterprise, which in many ways represented the antithesis of the vision of the future socialist economy that was current at the time.

In addition, new concepts of urban social organization and control, centred around the workplace and/or the neighbourhood, left little room for independent--and particularly itinerant--operators. Besides, many of the services they provided, and also the employment problems that they helped to solve, were to be taken over by the state, thus, it was thought, eliminating the need for these marginal, messy, and hard-to-control businesses. It happened that this attitude toward the petty private sector dovetailed neatly with "traditional" (Confucian) prejudices toward small-scale commerce, as well as with "Marxist" (mostly Leninist) ideas about petty private production and the petty bourgeoisie.

However, the petty private sector had a life of its own. It was a highly visible, highly productive, and highly functional part of the urban scene. It fulfilled several useful functions, and as long as there was money to be made and no more attractive alternatives, there would always be people prepared to operate small businesses. Its contribution to employment, to commodity circulation, to the quality of life in the cities, could not be denied, nor could the fact that the state sector could not hope to take over all of these functions all at once. So there was also a stream of opinion amongst policy-makers that favoured the

preservation--at least temporarily--of small-scale private enterprises. This could be done, it was argued, without endangering the growing dominance of the state sector, by the judicious use of the various administrative and economic levers at the state's disposal. It could even contribute to the growing strength of the state sector through taxation and by operating businesses that, although necessary, were too small, dispersed, or unprofitable for state-run enterprises to bother with.

There were times during the 1950s and early 1960s when the latter line predominated. This was particularly so in 1957-58, after the "high tide" of socialization attempted with little success to engulf the petty urban private sector as it was doing with more success with petty production in the countryside, and again in 1960-62 after the excesses and subsequent failure--with tragic results--of the Great Leap Forward. From the mid-1960s onward, however, and particularly in the aftermath of the Cultural Revolution, it was the hard-liners who won out, with their vision of centralized planned production and insistence on the ultimate eradication of the petty bourgeoisie.

However this did not mean that the petty private sector disappeared altogether from the cities; hawkers and door-to-door peddlers continued to roam the alleys, traders continued to make trips around the countryside to buy scarce produce to sell surreptitiously in the towns, and some families and individuals continued to run businesses--tailoring, hairdressing, childcare, traditional medical treatments--from their own homes. But their numbers were small and their existence precarious. They were

mostly older people who had never done anything else. Most operated underground or with at best tacit approval; some retained their licenses but there were certainly few if any new licenses issued. And it was not work for young people, who were being sent from the cities to the countryside in larger and larger numbers after finishing school, thus eliminating the need to arrange urban jobs for them. Thus to a great extent, the need for the petty urban private sector disappeared--at least as a source of employment. The services and goods it provided, of course, were still needed, but much of the demand simply went unmet.

After 1976, with the death of Mao Zedong and the removal of the Cultural Revolution leadership, the situation changed dramatically. Several trends converged. Policymakers and economists who favoured less restrictive, less centralized, more market-oriented economic policies and development strategies, gradually resumed positions of power. More attention began to be paid to the accumulated problems of city life, including shortages and poor quality of goods and services, transportation problems, deterioration of building stock, housing shortages. Low productivity was combatted with material incentives including bonuses and various kinds of "production responsibility systems" which provided direct material rewards for work. Programmes for sending young people to the countryside were discontinued, and many who had been "sent down" were already returning to the cities, either legally or illegally. The urban unemployment problem became pressing, and various policy solutions were put

forward. In the meantime, people started doing business for themselves, a trend which eventually demanded a bureaucratic response.

The reasons why the petty urban private sector had flourished in the past had not disappeared, even if they had been put on the back burner for at least a decade. The publicly-owned sector, which had come to dominate the economy, could not absorb all the surplus labour in the cities. At the same time, its predominantly large-scale operations had not developed in such a way that it could fill the existing demand for consumer goods and services. In fact, in what amounted to a monopoly position, it had little incentive to be responsive to consumer demand. The workers themselves, lulled by the lifetime security or "iron ricebowl" of public-sector employment, likewise had little incentive to provide friendly, efficient service to customers. In any case, the publicly-owned sector was tied to a national distribution system that was overloaded and functioned poorly. Three decades of emphasis on production and neglect of consumption had taken its toll. Now at a politically sensitive time when the newly-reformed regime needed popular support, it needed to become more responsive to the needs and desires of urban consumers. And it needed to find jobs for restive young people who were refusing any longer to be turned into peasants.

One response was not only to permit, but to actively resurrect the petty urban private sector--or individual economy. Beginning in late 1978 and early 1979, but with particular emphasis after the summer of 1980, policies were systematically

formulated and regulations passed which would ease the way for small private enterprises to develop and flourish. As this began to happen and the sector began to grow, problems began to crop up. These problems included public prejudice against private entrepreneurs and the whole concept of self-employment, widespread harrassment of private operators by low-level officials and local agencies, and systemic discrimination caused by the lack of a niche for private operators in the social, political and economic structures that had evolved over the past three decades.

At the level of central policy, the response to these problems was rapid and far-reaching. But it still failed to hit at many of the underlying reasons for the ill health of the individual sector, with the result that it grew less rapidly than central policymakers had hoped, and in the process of growth continued to exhibit what were seen as "unhealthy tendencies." It failed to attract large numbers of young school-leavers, who were its main target population. It produced a preponderance of extremely small, minimally-capitalized operations, symbolized by whole city blocks lined with pavement shoe-repairers, lounging in the sun but doing very little business. It also produced some business practices which were clearly illegal, and others which straddled the often-vague line between legality and illegality.

By mid-1983 it was apparent that many of the problems of the individual sector were being caused by the policies and regulations themselves, which did not go far enough to dispel the fears left over from three decades of restriction. Although

present policy was relatively clear, fear of long-term policy change, uncertainty over the future because of the lessons of past experience, meant that many operators were going for short-term profits at the expense of longer-term investment. At the same time, built-in restrictions on the size of enterprises (through restricting the number of employees) also encouraged short-term profit maximization over longer-term strategies. This was particularly true for businesses that were already treading the indistinct line between legality and illegality. The ambiguous status of the sector made it easier for local cadres, whose attitudes seemed to have changed little, to harrass and squeeze profit from the the private operators they were supposed to be watching over and helping. New regulations passed in mid-1983 did something to expand and define more clearly the scope of permissible operations and provide legal safeguards for legitimate operators. From mid-1983 the individual economy seemed to be operating on a much more secure footing.

But the legacy of past ambivalence had not disappeared. Even by the end of 1984, when the policy was reaffirmed by a major statement on urban economic reform, complaints about harassment, prejudice, the shaky social and political status of private entrepreneurs, continued to surface. They were reinforced by periodic clampdowns which, while they focused on illegal activities, made legitimate operators too question their future security as private entrepreneurs.

The need for the continued existence of the petty private sector remains quite clear, however. Every year jobs must be found for several million young school-leavers. At the same time, there is still a need for convenient services for urban residents--although the situation has improved enormously since 1980 with the mushrooming of curbside bicycle repair shops, "mom-and-pop" grocery stores in residential blocks, high-quality private tailors and various other services too numerous to mention.

One also has to look at the benefits of the continued existence of the individual economy from the point of view of the operators themselves. Not only are they "pushed" by lack of other jobs, and "pulled" by the prospects of high incomes. What for some people is a liability, for others is an asset--the lack of a work-unit, the relative autonomy, the independence, the scope for satisfying work with tangible rewards. For some, lack of security is a small price to pay for power over one's own life in a society where so much is dictated. For these people, the individual economy will continue to offer what one writer has termed a "zone of autonomy" in an economy which will continue to be dominated by state ownership, large scale, and central control.

On Sources

There are many sources of information on Chinese economic policy, including material published both in China and outside. Published Chinese materials vary widely in reliability, depending

on the source and also on the time of publication. In general, the press is tightly controlled, and this of course influences the slant of virtually everything that is published in the country. This fact does not necessarily discredit such publications; on the contrary they are extremely informative when read with a critical, informed, and intuitive eye. "Internal" periodicals and documents of various kinds (there are several categories, including materials intended for use by specific groups, and others restricted to circulation within the country only) are perhaps the most reliable, but these are by definition not freely available to foreign scholars.[2] For the most part this thesis is based on newspaper articles and editorials from the national press; English-language books and periodicals such as Beijing Review, and Xinhua news agency reports, which present the official line (and much valuable information) for foreign consumption; reports from the less tightly controlled local newspapers and articles in popular magazines; monitoring and translation services like the (British) Summary of World Broadcasts and (American) Foreign Broadcast Information Service which supply translations of press reports and transcriptions of local radio broadcasts; and academic monographs and articles in PRC academic and professional journals.

This published material has been supplemented with interviews and casual conversations with Chinese officials, researchers, and consumers, mainly over the years 1983-87, as well as personal observation during a two-year period of residence in China (1978-80) and many visits of varying duration

between 1983 and 1987. In addition, conversations with many entrepreneurs in many different cities have provided invaluable information, very often in conjunction with meals eaten, bicycles repaired, clothing mended, and entertainment enjoyed.

Apart from this "primary" material, this thesis also makes extensive use of the work of other foreign (i.e. non-PRC) scholars, particularly on the evolution of Chinese economic policy at different stages and in different localities. The process by which different orientations or approaches toward economic organization and economic development have been tried, rejected, and reformed is a complex one which has been given many interpretations by foreign economists and political scientists. The present work refrains, however, from adopting any particular model of the policy-making process put forward by such studies.[3]

Approaches to the Individual Economy

The resurgence of the individual economy after 1978 has attracted considerable attention both within China and abroad. Outside China some observers are tempted to see its resurgence as an indication of the "failure" of socialism and vindication of capitalism. Others have seen it more realistically as a long-overdue recognition that, within an economy broadly defined as socialist, there are areas in which independent operators perform more effectively than the state-run economy. In China the growth of the individual sector has engendered considerable debate within the broader context of discussions of economic structure, the proper role of individual incentives and private

ownership, decentralization of economic administration, the unleashing of market forces and de-emphasis of central planning, the growth of the tertiary sector, future directions in economic development--all issues that assumed greater urgency with the post-1978 economic reforms.

However these changes may be interpreted, a main assumption of this thesis is that China has not "returned" to the "capitalist road" of development. Nor should the reemergence of the individual economy be interpreted as a return to "traditionalism". Rather, it seems to indicate a new approach to confronting issues common to all developing economies, albeit within the context of a "socialist" economy, with socialism understood as continued predominance of the state owned sector and a considerable degree of central planning. The stated aim is to work towards what has been called "developed socialism with Chinese features" and in this effort the resurgence of the individual economy has played an important role. Nevertheless, the parallels with other developing countries following a very different development orientation is striking.

Small-scale individually-run or family-run enterprises are a familiar part of the urban scene in all third-world countries. All over Africa, Asia, the Caribbean, Latin America, these tiny businesses have provided accessible employment and much-needed low-cost goods and services to urban residents. Scholars of third-world urban development have variously seen them as lively "informal" economic sectors in dual economies, moribund "traditional" holdovers in modernizing economies, by-products of

underdevelopment, subsidizers of development, a reserve labour market, disguised unemployment; the evaluations of their role in economic development and urbanization have been both negative and positive, but more often the former. Likewise, the policymakers and city planners of third-world countries have adopted various policies to promote or--more often--limit them. Recently, their contribution to urban development and to the quality of urban life, has been reassessed in a more positive light.

Neither is China alone among socialist economies in seeing the persistence and growth of small-scale private economic activities, legal or not. Much has been written on this theme for other socialist economies, particularly on its illegal manifestations, whether in the Soviet Union, Poland or other Eastern European countries, or Vietnam. Some of this literature will be touched upon in the final chapter of the thesis, but no attempt will be made at exhaustive review. Where China has been unique has been in deliberately encouraging the growth of this sector and wherever possible removing legal and administrative impediments to its development, and in declaring that it would be an important feature of the Chinese economy for a long time to come.

The proliferation of small-scale enterprises has also been an important object of attention from many different points of view in the study of non-socialist economies, both developing and developed. It is not the intention of this thesis to review this voluminous literature on the so-called informal economy, petty commodity production, "second economies", and so on. To do so

would require a thesis in itself. However in the final chapter there will be some reference to discussions of conceptual issues and the economic role of this sector, however it is defined, insofar as they relate or contrast to the Chinese situation. An effort will be made to identify a place in that literature for consideration of the Chinese individual economy.

It would seem surprising that the rise of the individual economy has attracted the serious attention of only a very few western researchers on Chinese urban or economic issues. The post-1978 economic reforms have sparked many studies of changes in Chinese cities, by sociologists and political scientists as well as economists.[4] With rare exceptions (the most notable being the work of Dorothy Solinger), these have all but ignored the individual economy. It could be argued that this is not surprising given the small size of the individual sector in numerical terms, and the relatively greater impact of, for example, industrial reforms and the development of export processing zones. However as will become apparent below, the impact of the growth of the individual economy on the Chinese urban/economic landscape has been considerable, and the issues which it raises are important ones.

This neglect is true for geography as well as the other disciplines. Within urban and economic geography, much attention has been paid over the last several years to the impact of post-Mao economic reforms on Chinese cities and the urbanization process. Most of this literature has focused on the impact of economic reforms on spatial, sectoral, employment, and housing

features of Chinese cities and on various aspects of the Chinese urban system.[5] It has considered the rise of the individual economy only parenthetically, if at all. Although it is not the intention here to give an exhaustive review of all the recent geographical literature on Chinese urban development, a brief survey will indicate that although the rise of the individual economy has been mentioned as a phenomenon worth watching, it has so far received little if any in-depth study by geographers. A recent textbook by Pannell and Ma mentioned the individual economy only in passing, although it included an extensive chapter on urbanization.[6] Norton Ginsburg, in an article which appeared in a 1980 collection edited by himself and C.K. Leung, noted prophetically, "Just as the private sector in agriculture has been encouraged to expand ... so that sector in the provision of urban services may be similarly encouraged, or at least not discouraged," and observed that, along with encouragement of the collective sector, "entrepreneurial activity of a more conventional sort appears to be just a step away, just so capital accumulation is not at issue."[7]

In a 1983 article, Sen-dou Chang noted the connection between the decline of the "informal sector of urban economy", meaning hawkers, casual labourers, petty traders, and mobile vendors, and the inadequacy of the urban service sector, but saw little relief in the rise of the individual economy: "The restoration of small private business in the name of 'collective' and 'individual' enterprises organized by urban youths in the

past three years has been aimed [more] to alleviate the unemployment problems in Chinese cities than to provide the much needed services and retail trades."[8]

Making liberal use of the concept of economic dualism and the formal-informal dichotomy in the study of third-world cities, Victor Sit has done several studies on small-scale industrial enterprises in Chinese cities. For the most part, however, he has been concerned with the small-scale collective sector rather than privately-owned enterprises, and only tangentially with the commercial and service sector as opposed to industry. Nevertheless, many of his observations are relevant to the urban individual economy as well. As he rightly notes in an article published in 1983, for example, studies of urban small-scale enterprise in China are quite rare. Scholars outside China have been hampered by lack of published data, and inside China by the same problem as well as by ideological constraints which have circumscribed scholarly interest in the non-planned sectors of the urban economy. He notes that the reorientation of planning goals after 1976 has begun to change this situation and provide more data for the study of the "informal" (which he equates with "non-planned") sector of the Chinese economy.[9] However, he does not extend his study of the informal sector to include individually-owned enterprise.

One major reason why there has been relatively little said about the individual economy by scholars outside China is simply that it is too new and too small. Tiny and moribund before 1976,

and actively promoted by the Chinese government only since 1980, it has yet to grow to a truly significant level when compared with the state-run and collective sectors.

Thus this thesis should be seen less as a contribution to the corpus of geographical literature on Chinese urbanization than as an attempt to fill in some background on a subject that is by its nature of interest to geographers, and which is likely to have a significant future impact on areas upon which geographers have tended to concentrate, such as urbanization and urban systems. More generally, it seeks to fill a gap in contemporary research on economic development in China and the impact of post-Mao policy reforms. Although it arguably makes a contribution to the study of the geography of development and urbanization, its very subject matter requires an approach that is more interdisciplinary.

The concerns which initially inspired this study were spatial in nature, connected as they were with the impact of the growth of the individual economy on urban development in China and in particular on the urban economic landscape. This was originally intended to be a study of the development of the individual sector in a specific city or cities after 1978. The lack of opportunities for sustained and systematic field research, however, coupled with the absence of work by other scholars on this topic, either before or after 1978, necessitated a change in approach. The result often converges more with the concerns of political scientists and students of economic organization and administration than with those of geographers.

Nevertheless it seems clear that such a study fits into the framework of geography, for the end product of the development of the individual economy has been a proliferation of small-scale independent manufacturing, commercial, and service enterprises which have had an undeniable impact on spatial patterns of marketing and commodity distribution at national, regional, and local levels, on urban-rural relations and interactions, on the structure of urban employment, on the social landscape of the city and the quality of the urban environment, to name but a few areas traditionally of concern to geographers.

The approach finally adopted was also influenced by the nature of the available data. This study relies primarily on material on the individual economy published in Chinese newspapers, magazines, academic journals and monographs, as well sources concerned with more general questions of economic organization and administration, economic development policy, and political-economic theory. One major source of primary data has been reports in general-circulation newspapers, both national and regional. (The methodoligical issues involved in using newspaper reports from what is after all a Party-controlled press are discussed elsewhere.) The nature of the available material, in the absence of opportunities for systematic fieldwork, necessitated a macro approach at the expense of detailed local or firm-level studies. It also led to a focus on issues of central policy and administration, as well as theory. It became apparent, however, that even at this level of generalization, interesting detail could be adduced about general problems of

local-level policy implementation which at least hint at the extent of local variations. With the background filled in, it remains for future studies to address local-level and firm-level issues in a more detailed and systematic fashion.

It should also be pointed out that the present study is addressed to a readership that is assumed to have a general knowledge and understanding of developments in China over the last forty years. Thus this study does not attempt to recount the broader developments in the Chinese economy during this period, although of course the general trends are touched upon in Chapters Two and Three in order to contextualize the discussion of the development of the individual economy between 1949 and 1984.

Before proceeding to the detailed study of the situation of the individual economy which forms the body of this thesis, it is necessary first to supply some definitions and to describe in skeletal fashion the growth, structural makeup, and demographic characteristics--that is, the general socio-economic dimensions--of the individual sector as it developed between 1978 and 1984.

Definitions

The subject of this thesis is the Chinese urban individual economy. This immediately brings up two problems of definition. What is the "individual economy"? What is meant by "urban"? At this point some preliminary definitions will be offered, which will be fleshed out in the course of subsequent discussions.

Individual Economy

"Individual economy" is the usual translation of the Chinese term geti jingji.[10] Jingji has the straightforward meaning "economy", although in certain contexts it can also be translated as "economic sector." Geti is usually translated as "individual". The first syllable, ge, is a counting-word which has the connotation of "one" or "single"; the second syllable, ti, means "body". Thus geti can be translated literally as "single body."

There is a clear distinction in Chinese between "individual" (geti) and "private" (siren). Besides its primary meaning, "private" also carries connotations of secrecy, selfishness, and illicitness. Occasionally for stylistic reasons, however, this thesis will use the terms "individual" and "private" interchangeably. At times the term "self-employment" will also be used.[11]

In PRC descriptions of the Chinese nonagricultural economy, the overall economic structure is said to consist of four components: the state economy or sector (guoying jingji); the collective economy or sector (jiti jingji), which includes the cooperative economy or sector (hezuo jingji); and the individual economy or sector (geti jingji). These sectors are distinguished by, among other things, four different categories of ownership: respectively, public ownership (quanmin suoyouzhi, literally, "ownership by the whole people"); collective ownership (jiti suoyouzhi); cooperative ownership (hezuo suoyouzhi); and

individual ownership (geti suoyouzhi). There are also four corresponding forms of operation: state-run enterprises (guoying giye); collective enterprises (jiti giye); cooperative enterprises or simply cooperatives (hezuo she); and individual operations (geti jingying). Individual operations are often popularly called getihu, which literally means "individual households".

Because the subject of this thesis, "individual economy", is a construct unique to the PRC economic system, it seems reasonable in defining it to follow the definition generally used in the Chinese literature. Fortunately, there is a standard definition which most Chinese sources follow quite faithfully. Consider the following three examples:

> Individual economy is an economic form (jingji xingshi) based on the worker himself possessing (zhanyou) the necessary means of production, where the income from labour is controlled (zhipei) by the individual. ... The individual or family is the usual production unit, [where they] independently carry out productive operations, or supply labour services. The income from the labour of individual workers, apart from what is turned over to the state in taxes according to state regulations, is completely controlled by the workers themselves.[12]

> The so-called individual economy, simply speaking, is an economy of individual labour, or individual-ownership economy. It is an economic form where the means of production are owned by the individual workers, where individual labour is the basis, and where income from labour (including the products of labour and earnings from labour) is controlled by the workers themselves. This is the essential meaning or basic attribute of the individual economy. The classic form of the individual economy, which we could call its complete form is: dispersed activities based on individual labour, with the family as the operational unit, and independent operations.[13]

> Individual economy refers to an economic form in which the means of production are owned by an individual workers, mainly based on the labour of the individual workers or family members, carrying out commodity production, commodity exchange, or supplying labour services for urban and rural

> residents, where the income from labour including the products and earnings from labour are controlled by the worker himself.[14]

In all these definitions, three common features should be noted. These are private ownership or possession of the means of production, individual or household labour as the basic source of labour, and control of the fruits of own's own labour. For a unit to be described as an individual operation, all three conditions have to be present.

Each of these conditions can be qualified, however, and can and has been the source of lively contention. Means of production can include anything from a pair of scissors to a fleet of trucks, or nothing but common items found in the simplest household. It can also include, according to some arguments, the operators' labour. The individual or the family as the basic source of labour does not preclude the hiring of outside employees or apprentices, as long as this relationship is not deemed to be "exploitative." Control of the products or income of one's own labour means simply that these things can be disposed of at will by the individual or family and do not have to be shared with some collective or other enterprise. The latter distinguishes an individual operation from various sorts of contract arrangements or responsibility systems where another unit gets a prearranged share of the profits.

This thesis will concentrate on the urban nonagricultural individual economy, although other forms will occasionally be mentioned. This refers to operations with all of the above features, which are moreover located in urban areas (cities and

towns) and are not connected with agricultural production. Such operations are often called in the literature "individual industrial and commercial households (or firms)" or simply "individual industry and commerce" (geti gongshangye hu or geti gongshangye). This also distinguishes them from other kinds of independent operations such as the professions (for example, private medical practitioners and teachers who are usually treated in the literature as a separate category.)

A more descriptive definition would also be helpful. Basically, the term "urban individual economy" refers to a sector consisting of small-scale commercial, service, and industrial or handicraft enterprises in cities and towns, owned and for the most part operated by individuals or families, sometimes with a few hired employees or apprentices. It covers a broad range of operational forms, including work in the home, small shops and workshops, fixed-location sidewalk and market stalls (permanent as well as periodic and seasonal), and itinerant businesses operated from pushcarts and baskets balanced on shoulder-poles.

It should also be noted that this thesis confines itself to legally-recognized (i.e. licensed) individual enterprises. The black market, grey market, or underground economy is a fascinating subject, but by its nature exceedingly difficult for a foreign scholar to research. There also exists a large number of unlicensed individual firms which are in other respects indistinguishable from legitimate operations, but again, it is very difficult to know exactly how many there are, although estimates do exist and will be taken into account. In any case

the legal individual sector provides more than enough material for one thesis. Illegal activities are touched upon, of course, in Chapter Four which discusses questions of law, crime, and punishment. There it becomes clear just how elusive the line between between legal and illegal activities can be. Also, it is apparent that many licensed individual operators engage in illicit activities on the side,[15] but again this phenomenon will not be considered in detail in this study.

Urban

The definition of the term "urban" is more problematic. First it should be noted that the major justification of confining this study to the urban individual sector is that the study is primarily motivated by an interest in the role of the individual sector within the context of urban development. As well, in the period under study, the focus of most of the source literature was the urban individual sector, with the rural sector treated as a separate subject. Central regulations were explicitly aimed at the urban individual sector, although they also applied "in principle" to the rural individual economy as well. It was not until early 1984 that regulations were drafted specifically for the rural individual sector.

Over the years there has been considerable discussion among Chinese and foreign scholars about the precise meaning of the terms urban and rural in the contemporary Chinese context, and even on such basic issues as on the relative or absolute size of China's urban population.[16] There is no need here to go into the

intricacies of this discussion, except to say that as of the time of writing, crucial questions about definitions and especially the interpretation of urban population statistics have yet to be settled.[17] Despite problems of definition, however, there appears to be a well-understood functional distinction between agricultural and non-agricultural populations.[18] As well, there is a classification system which divides urban places into municipalities (shi) under provincial jurisdiction (except for the three largest--Beijing, Tianjin, and Shanghai--which are directly administered by the central government), and towns (zhen), under county administration, the majority being county seats.[19] The much-coveted urban household registration (hukou), however, is given only to households that are classified as "non-agricultural"; "agricultural" households do not have urban registration even if they are located in urban areas.[20]

In the Chinese literature, the urban individual economy is generally called chengzhen geti jingji. Cheng means "city" (originally the word actually referred to a walled city, historically the defining feature of an administrative centre) and zhen means "town." As a compound word chengzhen means "cities and towns", and when used as an adjective the meaning is "urban" as opposed to "rural". It also implies "non-agricultural".[21] The chengzhen geti jingji is a subset of chengxiang geti jingji which means "urban and rural individual economy". Xiang means village or rural area; it also refers to a sub-county

administrative unit usually translated as "township". The term urban individual economy, then, refers to non-agricultural individual enterprises in cities and towns only.

Growth and Significance of the Individual Economy, 1978-84

This section will attempt to outline the dimensions of the urban individual economy between 1978 and 1984. First some methodological issues should be discussed.

At the outset it must be accepted that official statistics will only reflect the number of legal, licensed individual operators. Some sources give rough estimates of the number of unlicensed operators who may be operating at a given time. However it is obviously difficult to find authoritative figures. Since the registration system appears to be fairly comprehensive, however, at least after 1979, it seems probable that offical figures for registered enterprises are quite reliable. Pre-1979 figures should probably be treated more circumspectly.

Even the statistics on legal operations may present problems, however.[22] The most complete statistical data come from the State Statistical Bureau of the PRC, but other sources will also be used. It is quite common, however, for different sources to give different figures. A related problem is that sets of statistics are not always comparable because of variations in definitional criteria, which, moreover, are not always clearly stated. Sometimes even the State Statistical Bureau will give different figures for the same year in compilations published several years apart. Finally, for the

period between 1965 and 1978, that is, the cultural revolution period and its immediate aftermath, the release of statistics was a rare occasion, and those that do exist should be treated with extreme caution.

Because of the deficiencies outlined above, and since this is not intended to be a demographic or statistical study, no effort has been made at detailed or sophisticated statistical analysis, nor to systematically compare different statistics from different sources. For this study the important element is trends, and errors of a few percentage points are unlikely to affect the general picture. Where misgivings or caution are in order, this will be noted.

There are different ways of assessing the relative size and hence importance of the individual economy, and different methods yield different impressions. If seen in terms of the number of workers employed in the sector compared with workers in the state, cooperative, and collective sectors, the individual economy looks insignificant indeed. If, however, the number of firms in the individual sector is compared with other sectors, the picture which emerges is of a much more significant presence. Again, the proportion of retail sales handled by the individual economy is also an index of its significance which far outweighs its importance in terms of numbers of people employed.

Table 1 maps the decline and revival of the urban individual economy from 1949 through 1984 in aggregate figures and as a percentage of the total labour force and total nonagricultural labour force:

TABLE 1

NUMBER OF URBAN INDIVIDUAL WORKERS 1949 - 1984 AND PROPORTION OF TOTAL LABOUR FORCE, SELECTED YEARS
(Labour Force Figures in Millions)

	Labour Force		Urban Individual Labourers		
Year	Total	Nonagric'l*	Number	% of Total	% of Nonagr.
1949	180.82	...	7.24	4.00	...
1952	207.29	34.12	8.83	4.26	25.88
1956	...	...	0.16	...	...
1957	237.71	44.61	1.04	0.44	2.33
1958	...	...	1.06	...	...
1959	...	...	1.14	...	...
1960	...	...	1.50	...	...
1961	...	...	1.65	...	...
1962	259.10	46.32	2.16	0.83	4.66
1963	...	...	2.31	...	...
1964	...	...	2.27	...	...
1965	286.70	52.72	1.71	0.60	3.24
1970	344.32	66.18	0.96	0.28	1.45
1975	381.68	87.08	0.24	0.06	0.28
1976	388.34	93.86	0.19	0.05	0.20
1977	393.77	100.32	0.15	0.03	0.15
1978	398.56	104.30	0.15	0.04	0.14
1979	405.81	111.56	0.32	0.08	0.29
1980	418.96	116.85	0.81	0.19	0.69
1981	432.80	121.09	1.13	0.26	0.93
1982	447.06	126.93	1.47	0.33	1.16
1983	460.04	134.94	2.31	0.50	1.71
1984	475.97	150.59	3.39	0.71	2.25

Source: State Statistical Bureau of the PRC, Statistical Yearbook of China 1985 (Hong Kong: Economic Information & Agency, 1985), p. 213; supplemented with figures for 1953-56, 1958-61, 1963-64, 1966-69, and 1971-74 from the 1984 edition, p. 137.

* Derived by subtracting labour force employed in agriculture from total labour force figures.

Although the figures themselves might be questionable, especially for 1949 and 1966-75, the trend is unmistakable, clearly reflecting shifts in policy toward the individual economy. After relatively lenient policies through the early and mid-1950s, 1956 saw the wholesale closure or amalgamation of the majority of individual firms. At the end of 1956, the number of urban individual workers was 1.04 million, down from 6.4 million the previous year (although as will be seen in Chapter Two below, this shift was largely on paper, as reflected in the higher figure for the following year, which was still only about one-sixth the 1955 number.) Policies loosened in the early 1960s in the economic and crisis following the "Great Leap Forward",

then tightened again just before and during the cultural revolution decade. By 1978 only 150,000 registered individual firms remained. From 1979 onward, the individual economy began to grow again, registering an almost ten-fold increase by 1984. This brought the urban individual sector approximately back to 1960 levels.[23] But because of population growth, this represented a regaining of only a fraction of the 4 percent of total labour force and 25 percent of the nonagricultural labour force the urban individual economy enjoyed in the mid-1950s. This general trend is repeated in all available time-series statistics, and the reasons for it are very straightforward.

As Table 1 indicates, the individual economy has only accounted for a tiny proportion of China's total workforce, which has been and continues to be overwhelmingly agricultural. As a proportion of the nonagricultural workforce it has been more significant but since 1957 has still employed only a small minority, even with the growth in individual employment after 1978.

As Table 2 shows, however, if total labour force figures are disaggregated by sector, a different picture of the relative importance of the individual economy begins to emerge:

TABLE 2

URBAN INDIVIDUAL WORKERS AS PROPORTION OF TOTAL LABOUR FORCE IN SELECTED SECTORS (Employment Figures in Millions)

	1981		1982		1983		1984	
	No.	%	No.	%	No.	%	No.	%
All sectors	1.13	0.26	1.47	0.33	...	...	3.39	0.71
Industry	0.11	0.19	0.16	0.27	...	...	0.38	0.60
Construction	0.01	0.08	0.01	0.07	...	...	0.04	0.22
Transport*	0.02	0.24	0.02	0.24	...	...	0.12	1.11
Commerce and Services**	0.99	5.79	1.28	7.03	...	...	2.82	11.98

Source: State Statistical Bureau of the PRC, Statistical Yearbook of China (Hong Kong: Economic Information & Agency): 1982, p. 106; 1983, p. 121; 1985, p. 214.

* Includes transport, posts and telecommunications.
** Includes commerce, catering trades, service trades, and supply and marketing of materials.

Although individual workers by the end of 1984 still comprised less than one percent of the total labour force, in commerce and services where the greatest numbers of individual workers were concentrated, the proportion was much larger, and moreover doubled between 1981 and 1984, from less than six percent in 1981 to almost twelve percent in 1984.

Within the commercial and service sector, the impact of the development of the individual economy is more apparent when portrayed in terms of the number of businesses rather than employees. Table 3 gives the proportion of individual workers and individually-run enterprises in commerce, catering, and services for 1978-84 and (for comparison) selected years from 1952 to 1965. These statistics combine urban and rural enterprises. (It will be noted that the percentages for workforce do not agree with the table above, because of the way in which the figures were derived.)

TABLE 3

IMPORTANCE OF INDIVIDUAL WORKERS AND FIRMS IN COMMERCE, CATERING, AND SERVICES, 1952-1984
(Total Figures in Millions)

	Employment			Establishments		
	Total	Indiv. Employed	Indiv. as % of total	Total	Indiv.	Indiv. as % of total
1952	9.529	8.255	86.63	5.500	5.359	97.44
1957	7.614	0.783	10.28	2.703	0.681	25.19
1963	5.152	0.771	14.97	1.439	0.660	45.87
1965	5.119	0.560	10.94	1.286	0.479	37.25
1978	6.078	0.262	4.31	1.255	0.178	14.18
1979	7.905	0.299	3.78	1.420	0.203	14.30
1980	9.268	0.897	9.68	2.022	0.686	33.94
1981	11.224	1.779	15.85	2.938	1.441	49.05
1982	12.921	2.710	20.97	3.832	2.216	57.83
1983	16.676	6.088	36.51	6.604	4.920	74.50
1984	21.526	9.607	44.63	9.150	7.281	79.57

Source: State Statistical Bureau of the PRC, Statistical Yearbook of China (HongKong: Economic Information & Agency), 1983, p. 399; and 1985, p. 487.

Note: Where discrepancies arose in 1957 data, figures from the 1985 edition were used on the assumption that these would be more reliable.

Table 3 vividly illustrates the significance of the individual economy in the sector most likely to affect the day-to-day lives of ordinary consumers in the PRC. In 1952 individual firms reportedly comprised over 97 percent of the total number of establishments in the commercial and service sector. By the end of the cultural revolution period, they were down to less than 15 percent. By the end of 1984, however, more than three-quarters of the commercial, catering, and service establishments were individually operated.

The large numbers of individual enterprises influence very strongly the look and atmosphere of the Chinese economic landscape. In the cities, the presence of millions of tiny shops, cafes, sidewalk shoe repairmen, market stalls, and itinerant peddlers undoubtedly has a far greater impact on such things as consumer convenience, traffic movement (and conges-

tion), street life, street noise, and urban environment in general than the equivalent number of employees working in large department stores and canteen-style restaurants.

Using Table 3 to calculate the number of employees per firm, we find that the size of commercial, catering, and service enterprises in the state-run and collective sector grew steadily between 1957 and 1982 (apart from a slight decrease between 1965 and 1978, for which period the State Statistical Bureau has not supplied data), from 3.38 employees per establishment in 1957 to 6.32 in 1978. Between 1965 and 1978 there was also a net decrease in the number of establishments in the state-run and collective sector (while China's total population continued to grow at a rate of more than two percent per year). All of this points to a trend to increase in size of establishments with a concurrent decrease in their numbers which reinforces the complaints which surfaced in the Chinese press after 1976 about the inadequacy of the commercial network to satisfy the everyday needs of consumers.

Table 4 disaggregates data on the proportion of individually-operated enterprises in different streams of the commercial sector. Although it comes from a different source, the basic data are roughly similar, and further reinforce the conclusion that the impact of the growth of the individual economy is larger than the employment figures would suggest.

TABLE 4

INDIVIDUAL RETAILING, CATERING, AND SERVICES
AS A PROPORTION OF TOTAL OUTLETS, 1957-1985
(Percentages)

Year	All Enterprises % Indiv.	Retail % Indiv.	Catering % Indiv.	Services % Indiv.
1957	25.2	21.1	25.1	53.6
1978	14.2	10.3	30.8	37.8
1979	14.3	10.5	29.0	30.1
1980	33.9	25.8	55.2	55.0
1981	49.0	41.0	65.8	67.8
1982	57.8	51.3	71.5	71.9
1983	74.5	71.9	80.3	82.4
1984	79.6	77.4	84.4	86.7
1985	81.6	79.5	86.8	87.4

Source: Guowuyuan Bangongting Diaoyanshi (State Council General Office Survey Research Office) (ed.), Geti Jingji Diaocha Yu Yanjiu (Surveys and Research on Individual Economy), Beijing: Jingji Kexue Chubanshe, 1986, p. 299.

The most striking impression is that by the end of 1980, over one-half of the catering and service enterprises in China were individually-operated, compared with around 30 percent in 1978. (The drop between 1978 and 1979 was due to a sudden increase in the number of collective enterprises; in many cities, such as Beijing, individually-owned restaurants were still illegal until 1980 although other kinds of service trades had been issued licenses.) By 1982 over one-half of the retail enterprises were individually-run, compared with only 10 percent in 1978-79. By the end of 1984 over three quarters of all retail establishments were individually-run, and well over 80 percent of catering and service enterprises.

The figures in Table 4 include both urban and rural areas. (It should be noted, however, that in China nonagricultural service enterprises, and rural population generally, tend to be clustered in villages and small towns which may or may not officially be classified as urban.) For the cities, time-series

data are more difficult to obtain. A 1985 compendium of urban statistics for 295 cities, however, gives rich information on the situation for 1984. These data are summarized in Table 5.

TABLE 5

INDIVIDUAL RETAIL, CATERING, AND SERVICE OUTLETS AS PROPORTION OF TOTAL OUTLETS IN 295 CITIES, 1984

	Total Outlets	Individual Outlets Number	Individual Outlets %
All Trades			
City & counties*	4,616,757	3,640,153	78.85
City only	1,800,686	1,360,284	75.54
Retail			
City & counties	3,292,636	2,537,076	77.05
City only	1,191,122	880,167	73.89
Catering			
City & counties	611,309	500,190	81.82
City only	306,948	241,883	78.80
Services			
City & counties	712,812	602,887	84.58
City only	302,616	238,234	78.72

Based on: State Statistical Bureau, People's Republic of China, comp., China: Urban Statistics 1985 (London: Longman Group Ltd., and Beijing: China Statistical Information and Consultancy Service Centre, 1985), pp. 480, 488.

* Cities are generally delineated to include the surrounding rural hinterland (counties), which can also include towns of considerable size, the population of which is included in aggregate urban population statistics. "City only" refers to the built-up urban area. The 295 cities included in this compilation comprised 73.82% of the country's nonagricultural population as of end-1984.

The data for these cities confirm the impression that by the end of 1984, urban retailing, catering, and services were numerically dominated by small enterprises of the individual sector. More detail is available for only a few specific cities; Table 6 gives comparative data for Beijing. It will be noted that for most categories the percentages are considerably lower than in the table above; without more detailed information on data sources and definitions, it is impossible to supply reasons for the divergences.

TABLE 6

COMMERCIAL, CATERING, SERVICE, AND REPAIR OUTLETS AND PERSONNEL BY FORM OF OWNERSHIP, BEIJING, YEAR-END 1984
(Percentages)

	State	Collective	Cooperative Ventures	Individual
All outlets	12.58	23.64	0.05	63.72
Personnel	45.56	40.62	1.23	12.58
Retail Commerce				
Outlets	14.95	24.46	0.05	60.54
Personnel	49.77	38.39	0.25	11.59
Catering				
Outlets	14.75	29.79	0.05	55.41
Personnel	45.35	43.16	0.37	11.12
Services				
Outlets	17.53	32.22	0.18	50.07
Personnel	54.99	33.87	6.67	4.47
Repairs				
Outlets	1.39	14.31	...	84.30
Personnel	6.92	57.44	...	35.64
Tailoring and Sewing				
Outlets	0.86	11.50	...	87.64
Personnel	8.97	55.40	...	35.63
Manufacturers' Sales Outlets				
Outlets	41.63	58.14	0.23	...
Personnel	32.98	66.95	0.08	...

Source: Beijing Shi Tongji Ju (Beijing Municipal Statistical Bureau), Beijing Shi Shehuijingji Tongji Nianjian 1985 (Beijing Municipality Social and Economic Statistics Yearbook 1985), Beijing: Zhongguo Tongji Chubanshe, 1985, p. 349.

In terms of value of retail sales, however, the individual economy appears a somewhat less significant force, as Table 7 demonstrates.

TABLE 7

INDIVIDUAL ECONOMY'S VALUE AND SHARE OF TOTAL RETAIL SALES, 1978 - 1984
(Value in Rmb 100 Million)

	Value	As % of Total Retail Sales
1978	2.1	0.1
1979	...	...
1980	14.7	0.7
1981	37.4	1.6
1982	74.6	2.9
1983	184.5	6.5
1984	323.7	9.6

Source: State Statistical Bureau of the PRC, Statistical Yearbook of China (Hong Kong: Economic Information & Agency): 1981, p. 335; 1983, p. 372; 1985, p. 465.

More significant was the growth rate of share of retail sales relative to other sectors. In 1984, for example, when the overall growth in retail sales was 17.8 percent, sales in the individual sector increased by 76.4 percent.[24]

The overall picture which emerges from this statistical overview is of a sector which experienced rapid growth between 1978 and 1984. Although by the end of 1984 still relatively small in terms of total employment, the individual economy had become an important force in the commercial and service sector by virtue of sheer numbers of very small firms. Moreover it was capturing a rapidly growing share of retail sales in the economy as a whole. Most important was its growing impact on the distribution of goods and services in China's cities.

Structure of the Individual Economy

As noted in the section above, most individual employment was concentrated in the tertiary sector, especially in retail commerce, catering, and service trades.

The most detailed figures on overall occupational structure in the individual economy are those compiled for 1981-85 by the General Administration for Industry and Commerce, the agency in charge of overall licensing and supervision of the individual economy. Tables 8A and 8B summarize these figures for urban indivual enterprises only, first by number of enterprises, secondly by percentage. (It should be noted that the totals differ from those taken from State Statistical Bureau sources

above. Since these figures are probably aggregated from local registration records, it is likely that they are more accurate than SSB figures.)

TABLE 8A

OCCUPATIONAL STRUCTURE OF THE URBAN INDIVIDUAL ECONOMY BY NUMBER OF ENTERPRISES, 1981-85
(Figures in thousands)

	1981	1982	1983	1984	1985
Total	896	1,132	1,705	2,222	2,798
Industry & Handicrafts	74	97	145	196	262
Transportation	11	13	23	59	109
Construction	2	3	4	6	8
Commerce	451	601	1,012	1,302	1,579
Catering	163	218	255	321	410
Services	90	109	131	155	199
Repairs	74	86	118	151	186
Other	4	5	17	32	45

TABLE 8B

OCCUPATIONAL STRUCTURE OF THE URBAN INDIVIDUAL ECONOMY BY NUMBER OF ENTERPRISES, 1981-85
(Percentages)

	1981	1982	1983	1984	1985
Industry & Handicrafts	8.52	8.57	8.50	8.82	9.36
Transportation	1.27	1.15	1.35	2.66	3.89
Construction	0.23	0.27	0.23	0.27	0.29
Commerce	51.90	53.09	59.35	58.60	56.43
Catering	18.76	19.26	14.96	14.47	14.65
Services	10.36	9.63	7.68	6.98	7.11
Repairs	8.52	7.60	6.92	6.79	6.65
Other	0.46	0.44	0.99	1.44	1.61

Source: Guowuyuan Bangongting Diaoyanshi (State Council General Office Survey Research Office), ed., Geti Jingji Diaocha Yu Yanjiu (Surveys and Research on Individual Economy), Beijing: Jingji Kexue Chubanshe, 1986, pp. 296-7. (Based on Administration of Industry and Commerce figures.)

According to these statistics, occupational structure within the individual urban economy remained fairly constant from 1981 to 1985. The same source gives a breakdown according to employment as well, but since the number of employees per firm in every sector hovers around 1.2 to 1.3, the occupational data present a similar picture. Because firm sizes in industry and handicrafts, construction, and catering tend to be slightly larger than in commerce and the other trades, the importance of

commerce is slightly less when employment figures are used rather than figures on number of firms. (For example on this basis the 1985 figure for commerce is 52.15 percent as opposed to 56.43 percent, and that for catering is 17.63 percent rather than 14.65 percent.)

Broadly speaking, for the entire period, about 50 to 60 percent of all urban individual firms were engaged in commerce, another 15 to 20 percent in catering, and 10 percent or slightly less in industry and handicrafts and in service trades. Six to 8 percent were engaged in repairs, 1 to 3 percent in transport, and less than 1 percent in construction. The share in industry and handicrafts increased over these five years, as did transport. Catering, services, and repairs decreased, and commerce increased from 1981 through 1983, then fell slightly in the following two years.

Unfortunately very little detailed local data has been published on the structure of the individual economy in various cities, and what information does exist is difficult to compare or interpret because there is no standardization of categories used. However, partial local data suggest that the above structure, while broadly applicable, varies from locality to locality, and according to whether the figures include the urban built-up areas only or also the surrounding rural counties. Table 9 gives comparable figures for Beijing for 1983 and 1984, for the entire municipality and the urban districts only.

TABLE 9

OCCUPATIONAL STRUCTURE OF URBAN INDIVIDUAL ENTERPRISES IN BEIJING, 1981-85
(Percentages)

	1983		1984	
	Municipality	Urban Districts	Municipality	Urban Districts
Handicrafts	11.28	5.51	13.81	6.73
Transportation	4.19	6.79	7.72	8.08
Construction	1.90	0.95	1.89	0.73
Commerce	48.34	48.02	45.11	43.22
Catering	7.23	6.57	6.71	8.59
Services	4.01	5.45	4.53	5.61
Repairs	16.35	17.89	14.88	17.32
Clothing Manufacture	6.74	8.75	5.12	9.24
Other	0.04	0.06	0.23	0.49

Source: Beijing Shi Tongji Ju (Beijing Municipal Statistical Bureau), Beijing Shi Shehuijingji Tongji Nianjian 1985 (Beijing Municipality Social and Economic Statistics Yearbook 1985), Beijing: Zhongguo Tongji Chubanshe, 1985, p. 389.

As Table 9 shows, the structure of the individual economy in Beijing for 1983 and 1984 was broadly comparable with the national figures. By far the largest proportion of firms were commercial. While for the country as a whole catering ranked second, for Beijing, repair trades ranked second to commerce, with sewing third and catering fourth--for the urban districts. When the surrounding counties are included, handicrafts production--which is more popular amongst rural rather than urban individual operators--takes on much greater significance. Given the differences in categories between the national data and the Beijing figures, it would be fruitless to speculate in any great detail on the reasons for these discrepancies.

Some mention has already been made of firm size. Individual enterprises are small by definition, and the available data support the assertion that the individual economy on the whole consists of businesses run by individuals and their families. Nevertheless, as Table 10 demonstrates, there are

interesting differences in the different sectors which make up the individual economy, and between urban individual businesses and their rural counterparts.

TABLE 10

FIRM SIZE IN VARIOUS SECTORS OF THE INDIVIDUAL ECONOMY, 1981 AND 1984
(Persons per Firm)

	Urban and Rural		Urban Only	
	1981	1984	1981	1984
All Sectors	1.24	1.40	1.22	1.31
Industry and Handicrafts	1.33	1.69	1.26	1.42
Transport	1.21	1.58	1.27	1.36
Construction	2.25	5.54	4.00	3.67
Commerce	1.17	1.28	1.16	1.23
Catering	1.42	1.62	1.34	1.56
Services	1.20	1.28	1.20	1.29
Repairs	1.13	1.24	1.16	1.27
Other	1.42	1.11	1.25	1.31

Source: Guowuyuan Bangongting Diaoyanshi (State Council General Office Survey Research Office), ed., Geti Jingji Diaocha Yu Yanjiu (Surveys and Research on Individual Economy), Beijing:Jingji Kexue Chubanshe, 1986, pp. 296-7. (Based on Administration of Industry and Commerce figures.)

As the above table shows, apart from the construction trades, all sectors had on average less than two people working in each firm. (These data unfortunately do not distinguish between non-salaried family members and salaried employees or apprentices.) For the urban individual economy, other than construction, the sector with the largest firms was catering. It should also be noted that, for all sectors except the mysterious "other," firm size increased from 1981 to 1984 (this apparent trend is supported by documentary evidence.)

These data must be kept in perspective, however. When we refer to "commercial enterprises" we are for the most part talking about simple businesses like tiny neighbourhood grocery stores, often operated in the family's front room, or stalls set

up during the day on sidewalks to sell cigarettes, fruit, or a few books or magazines, then folded away at night. Sometimes there is no stall, merely a sheet of fabric or plastic spread on the ground. Some of these establishments are more substantial, operating out of rented premises on busy shopping streets and selling, for example, high-priced fashion clothes. A great many of the "service enterprises" are simply people sitting on low benches along the sidewalks, with a few tins of shoe polish and some rags. "Catering" can refer to anything from a well-appointed restaurant or European-style coffee shop to a few tables and benches set up on the sidewalk or in a market stall selling bowls of noodles or beancurd soup, or even just watery tea. Many specialize in local specialties and snacks--"street food". Likewise, "services" can encompass itinerant knife-grinders and letter-writers, as well as well-equipped beauty parlours and photography studios. "Repairs" can refer to anything from pots and pans to computers. Although some of these trades duplicate goods and services supplied by the state-run and collective sectors, many are providing goods and services that have not been seen on China's streets since the mid-1950s, or which have been in desperately short supply.

Individual operations can operate from fixed locations (which can include permanent shops or workshops, market stalls, or streetside stands) or they can be itinerant or semi-itinerant. One source noted that in 1980 some 86 percent of all individual

operations in the country were "hawkers and peddlers" (xiaoshang xiaofan), of which a large proportion, especially in the countryside, were itinerant traders.[25]

The number of individual trades which comprise the various categories is vast. A 1982 study gives a list of the trades found in Shaanxi province as an example of the variety of activities encompassed by the individual economy:[26]

> Repairs: watches and clocks, bicycles, sewing machines, radios, televisions, cultural and athletic equipment (e.g. musical instruments, badminton rackets), electrical goods (e.g. radios, tape-recorders), plastics, nylon goods, cooking utensils, appliances.
>
> Services: hairdressing/barbering, photography, shoe repair, laundry, sewing and mending, painting and papering, whitewashing, fluffing cotton wadding (used to stuff quilts and cotton-padded clothing--it is periodically removed to wash and then has to be fluffed up again, using specialized implements), furnace and stove repair and maintenance, rice puffing (itinerant hawkers with a pressurized coal-fired oven which produces puffed-rice kernels closely resembling breakfast cereal), picture painting, scribing and letter-writing, custom pattern-cutting.
>
> Catering trades: restaurants, teashops, wineshops, vendors of steamed cakes, youtiao (fried dough-sticks usually eaten for breakfast), pickles, buckwheat noodles, meat dumplings, popsicles and ices, bean jelly, fried sweets, zongzi (stuffed sticky-rice dumplings wrapped in bamboo leaves, traditionally eaten during the Dragon Boat festival in early summer), hundun (or wonton), fried chicken, smoked meats, cold drinks, roasted sweet potatoes.
>
> Commerce: everyday small commodities, various food products, tobacco, wine, cakes and cookies, preserved and fresh fruits, pickled vegetables, meat, poultry and eggs, fish, vegetable seeds, flowers and songbirds, tropical fish and pet insects (such as cicadas and crickets).
>
> Handicrafts: wood products, bamboo, rattan and palm products, metalwork, sewing and tailoring, seal-carving, painting and calligraphy, paper flowers, toys.
>
> Building trades: building maintenance, plumbing and electrical maintenance, plastering, whitewashing, painting, mat-shed building, well-digging.

Over the period under study the range of activities increased, as policy progressively relaxed to allow individual operators to engage in formerly forbidden businesses and as the government encouraged the expansion of the tertiary sector. There was also a general increase in the technical level of enterprises (for example after new regulations in 1983 permitted the use of motorized vehicles in the transport sector.)

Demographic Features: Who are the Self-Employed?

Demographic information on the individual economy is sparse, spotty, and difficult to interpret. National statistics are very hard to come by. Various studies on employment or on the individual economy in particular cities or provinces published in the Chinese literature have tended to be more informative, but often they raise more questions than they answer. This section will summarize some of these data and attempt to draw some tentative conclusions about who China's individual operators are.

Previous Employment

The real impetus to the promotion of self-employment after 1978 was the pressing problem of urban unemployment and the concomitant need for reform of the employment allocation system. Chapter Two will include a more detailed discussion of this issue, which by the late 1970s was becoming a serious threat to any attempts at economic reform, and a major source of social disorder, especially among young people. Statements about the

necessity of developing the individual economy to create employment focused especially on the problem of "daiye qingnian"--literally, "waiting-for-work youth" or young school-leavers awaiting their first job assignments (of whom there was a large backlog by 1978.) But as will be seen below, over the years the major beneficiary of this policy has turned out to be another group, more difficult to define, labelled "shehui xiansan renyuan", or "socially idle personnel." Another important category is "retired workers and staff"--retirees from state and collective units who may or may not be collecting retirement pensions. Also a significant presence were those who had undergone labour reform or labour education (the equivalent for juvenile offenders); a group that, as in other countries, is discriminated against in job assignments.

National statistics show rapid growth in the proportion of unassigned young people among the self-employed early in the period under study, followed by a dropping-off toward the end of the period. According to the Encyclopedia of China Yearbook, in 1981 23.5 percent of the urban self-employed fell into that category, more than 6.2 times the proportion in 1978, when the individual economy consisted almost solely of old people who had managed to stay in business through the cultural revolution. The proportion who were young people waiting for job assignments increased to 26.7 percent in 1982, and 28.3 percent in 1983. By the end of 1984 however, the proportion had fallen back to 27.3 percent, and a year later to 25.7 percent. It is difficult to say what happened to the proportion who were formerly "idle",

however; for year-end 1981 it was reported as 53 percent (with a further 16.4 percent listed as "other", and 7.12 percent listed as retired.) Figures were not supplied for 1982 and 1983, but for 1985 the proportion of self-employed who were formerly "idle" was 67 percent, said to be a decrease from 67.4 percent the previous year. In 1985 6.3 percent of the urban self-employed were retirees, an increase from 5.3 percent the year before. The "other" category had disappeared, possibly absorbed into "idle".[27]

Some of the most detailed and probably authoritative local data on who is employed in the individual economy come from a collection of articles published by the State Council in 1986.[28] The data compiled in Table 11 summarize all the information provided in this book on the employment background of the self-employed in six provinces and cities.

TABLE 11

EMPLOYMENT BACKGROUND OF SELF-EMPLOYED IN SIX PROVINCES AND CITIES, 1985
(Total Figures and Percentages)

ZHEJIANG PROVINCE	
Total (survey of nine cities)	33,153
	%
Waiting-for-work youths (daiye qingnian)	21.9
Retired workers and staff (tuixiu zhigong)	2.9
Idle personnel (xiansan renyuan)	56.9
Employed but salaries stopped (tingxin liuzhi)	2.5
Formerly in labour education or labour reform (lianglao)	
Fired or discharged (kaichu citui renyuan)	3.8
Cadres families (ganbu jiashu)	2.5
Other	0.3
	9.2
GUANGDONG PROVINCE	
Total (five samples)	11,630
	%
Waiting-for-work youths	34.3
Socially idle personnel (shehui xiansan renyuan)	42.0
Retired workers and staff	1.1
Peasants who have moved to cities (jincheng nongmin)	22.6
SHANGHAI	
Total -- municipality	113,937
" -- urban	54,819
" -- rural	59,118
	% of non-rural
Waiting-for-work youths	16.3
Retired workers and staff	14.6
Resigned or dismissed workers and staff (tuici zhigong)	11.0
Socially idle personnel	49.1
Formerly in labour education and labour reform (lianglao) (not including those who first worked in state or collective units)	10.4
NANJING	
Total -- municipality (Oct. 1985)	17,355
Survey of one district (total 2,120):	%
Waiting-for-work youths	16.8
Retired workers and staff	4.3
Employed but salaries stopped (liuzhi tingxin)	1.2
Taken off unit's books (danwei chuming)	0.4
Resigned (tuizhi)	0.5
Formerly in labour education and labour reform (laogai laojiao)*	10.3
Idle personnel (xiansan renyuan)	58.4
Rural registration	8.0

* Source noted that laogai laojiao were especially concentrated in some areas; in one market street, of 152 individual vendors 50 were from this category.

WUHAN	
Total	41,561
	%
Waiting-for-employment youth	22.3
Socially idle (shehui xiansan)	49.9
Three labours (sanlao)	3.6
Removed from enterprise's books (including resignations -- zi li)	*2.9
* Totals 78.7%; figures not given for the other 21.3%.	
SHENYANG	
Total	105,042
	%
Waiting-for-employment youth	11.8
Retired	18.0
Socially idle personnel	14.6
Note: Totals 44.4%; figures not given for the other 55.6%.	

It would seem safe to say, then, that about half of the urban self-employed in the period under study were formerly "socially idle personnel." Interestingly, this research has failed to unearth an explanation of who these people are. A paper (in English) given by a Chinese researcher at an international conference called this category "potential labour force" and said it included "mostly housewives and former private businessmen who were forced to give up their business and sent to the countryside during the Cultural Revolution."[29] Several knowledgeable informants volunteered the information that this category was "very complicated" (hen fuza). It appears to consist of the following groups: housewives and others (such as the disabled) who were formerly not in the workforce at all but who took advantage of the new policies toward self-employment to secure an independent income; old people without pensions; young people who refused the job assignments they were given after finishing school (which took them out of the daiye category);

former "sent-down" youth who had returned to the cities from the countryside after 1978 but had not been given job assignments; and people who were formerly working for other units but either lost their jobs altogether, or kept them nominally but actually had no work to do (and perhaps no pay) because their units were in financial trouble. This last group could be termed the victims of recent economic reforms, which have to some extent increased competition among units and rewarded efficiency, as well as giving enterprises the right to fire redundant or unproductive employees. One could speculate that it is this group which is swelling the numbers of "idle personnel" who have taken to self-employment in more recent years. It is interesting that while reports in the Chinese literature appear eager to discuss the issue of youths awaiting job assignments, they are reluctant to tackle the issue of unemployment directly.

Age

Since one of the major objectives of the post-1978 promotion of the individual economy was to provide jobs for unemployed young people in the cities, one would expect this to be reflected in changes in the age profile of the self-employed. The individual sector had long been regarded as a haven for the elderly. After the collectivization of most individual businesses in the mid-1950s, any unemployment problems among urban youth had been solved by sending them to the countryside or to frontier

regions. In the cities, most of the remaining self-employed workers were either old or physically infirm. This situation remained virtually unchanged through the end of the 1970s.

A study of Shanghai, for example, reported that "by 1975 only some 8,000 self-employed persons remained, all of whom were long-standing individual workers above age sixty." By September 1981, one year after the central government had begun to actively encourage unemployed young people to open businesses, there were 335 "young" self-employed (under twenty-five), representing 3.06 percent of the city's total number of self-employed workers.[30] Similarly, a survey conducted in Beijing found that of the 3,368 people engaged in individual enterprise in that city at the end of August 1981, less than 10 percent were "young people" (in that survey defined as aged 17 to 35) about half of whom were under twenty.[31] Guangzhou in 1979 had 5,666 self-employed workers, of whom 216, or 4 percent, were "youths". 1981 statistics show an increase in the total number of self-employed to 25,655, of whom 8,503 or 33.1 percent were classified as "youths".[32] Similar progress was reported in Harbin, where 6.8 percent of the 4,888 self-employed in 1979 were "youth". The proportion increased to 26 percent for 1980 (of a total of 8,827), and 34.6 percent for year-end 1981 (out of a total of 12,347).[33]

Thus even by late 1981, in conformance with the objective of developing the individual economy as a source of employment for young people, the demographic profile of the sector in many localities only very gradually became "younger". The surveys published by the State Council in 1986 show that by the end of

1985 much more progress had been made, although comparisons are difficult because of the different age categories used in each and because some of the data refer to rural and urban individual operators and some to urban only.

In Shanghai and Nanjing, about 18 percent of the self-employed surveyed were under the age of twenty-five. In the city of Shenyang the proportion was much smaller--only 13 percent. In the province of Guangdong, however, a remarkable 46 percent were under thirty, compared to 32.5 percent for Jiangsu province and about 33 percent for the city of Wuhan. While the proportion over sixty was similar for Jiangsu and Shenyang (9 to 10 percent), the proportion over 55 was 14% for Zhejiang, 34 percent for Shanghai, 37 percent for the districts surveyed in Nanjing, and 18 percent for Wuhan.[34]

It would seem then, that the individual economy has been getting progressively younger in its age profile. It is probable that there is wide variation from locality to locality depending on local economic conditions. For example, one study which compared individual employment in a city in Jiangsu province and a town in Anhui found that in the more developed city the self-employed tended to be older because young people easily found employment in regular enterprises.[35]

Gender

If anything, data on the balance of male and female among the self-employed is even more difficult to find than information

on age or employment background. Table 12 presents a summary of all the data given on gender of the self-employed by the above-cited State Council collection.

TABLE 12

GENDER DISTRIBUTION, SELECTED CITIES
(Percentages)

	Male	Female
Shanghai		
As % of total self-employed	61.74	38.26
As % of urban self-employed	54.59	45.41
Guangdong		
Survey of five localities	60.10	39.90
Nanjing		
One district	51.08	48.92
Wuhan	60.04	39.96

Source: Guowuyuan Bangongting Diaochashi (State Council General Office Survey Research Office), ed., Geti Jingji Diaocha Yu Yanjiu (Individual Economy Surveys and Research) (Beijing: Jingji Kexue Chubanshe, 1986), pp. 21, 76, 87-88, 119.

It appears that although a considerable proportion of the self-employed are women, men are definitely in the majority. With the paucity of information on women's participation in the individual sector, it is impossible to do more than speculate on who these women are and what they do. It would be interesting to know, for example, how many are former unemployed housewives, and how many are unassigned school-leavers. A 1982 survey of young individual operators in Beijing noted that of 307 "young people" (under 35) running businesses in four urban districts, only fifty, or 16.3 percent, were women.[36] This seems to indicate that a large proportion of the female self-employed were middle-aged or older. This impression is reinforced by a 1981 report from Shanghai which gives the proportion of women in that city's individual economy as 40.36 percent, but points out that

the sector was characterized by "three abundances", meaning that "many are elderly, experienced in self-employment, and elderly female."[37] Given that in the early 1980s some seventy percent of young people "waiting for work" were women, it seems that a surprisingly small proportion of them have sought employment in the individual sector.[38]

Education

There are a few intriguing clues to the educational level of the self-employed. Although obviously the one-quarter who are unassigned school-leavers have at least some education (although by no means all are middle-school graduates), the overall educational level (and hence, literacy level) of the sector is low. Table 13, derived from the State Council collection cited above gives data for Jiangsu and Zhejiang provinces, and one district of the city of Nanjing.

TABLE 13

EDUCATION LEVEL OF THE SELF-EMPLOYED
(Percentages)

JIANGSU	
Illiterate	14.2
Primary school*	43.9
Lower middle school	33.8
Technical or upper middle school	7.9
University or college	0.2
ZHEJIANG	
Primary school or less	51.88
Middle school	48.03
NANJING (one district)	
Illiterate	39.2
Primary school	32.2
Lower middle school	24.3
Upper middle school	4.1
University or college (relatives as helpers)**	0.2

Source: Guowuyuan Bangongting Diaochashi (State Council General Office Survey Research Office), ed., Geti Jingji Diaocha Yu Yanjiu (Individual Economy Surveys and Research) (Beijing: Jingji Kexue Chubanshe, 1986), pp. 51, 62, 87.

* Does not specify whether graduated or simply attended.
** Probably means that while the license-holder has a university education, the business is actually being run by his/her relatives.

Very probably educational level varies negatively with age, so that the self-employed with the lowest educational levels are the retirees and possibly also the former housewives and others in the xiansan category. In any case, it seems that for the most part educated people whose options tend to be broader, have not been clamoring to join the ranks of the self-employed, an impression which will be substantiated in the chapters below.

Incomes and Hired Employees in the Individual Sector

Here brief mention will be made of two other important and very contentious variables: the incomes of the self-employed, and the incidence of hired labour in the individual economy. Because both of these touch upon very sensitive ideological and policy

issues, they will be dealt with in greater detail elsewhere in the thesis. This section will confine itself to a brief discussion of income distribution, and information on the number of firms which employ hired labour.

Although many individual firms are poor substitutes for salaried jobs, so much publicity has been given to the more prosperous businesses (the famed "wan yuan hu", or ten-thousand yuan households), that a general perception seems to have developed that most individual operators are rich. Available statistics show that this is far from the truth, however. The 1986 State Council survey revealed that the 1985 average annual income of the more than 500,000 self-employed workers surveyed was 3,063 yuan, which was about double the average real income of salaried personnel (including benefits and labour insurance). The average was clearly pushed up by a few who earned exceptionally high incomes. About half earned less than 1,500 yuan, about two-thirds earned less than 3,000 yuan, and only 5.7 percent earned more than 10,000 yuan per year.[39] Table 14 gives a breakdown of income distribution in the various trades.

TABLE 14

INCOME DISTRIBUTION, 1985
(Percentages)

	1,000 or Under	1,001-1,500	1,501-3,000	3,001-5,000	5,001-10,000	Over 10,000
All trades	28.2	20.7	20.0	18.3	7.1	5.7
Industry/ Handicrafts	21.6	36.6	19.2	10.4	8.0	4.2
Transport	27.6	15.4	19.4	22.6	7.0	8.0
Construction	15.6	1.8	54.6	13.8	11.3	2.9
Commerce	29.3	18.5	19.8	22.9	6.2	3.3
Catering	30.4	16.7	18.3	11.4	7.1	16.1
Services	21.8	25.1	20.1	14.0	13.6	5.4
Repairs	23.4	28.5	27.3	10.3	6.5	4.0
Other	66.6	9.4	8.2	8.8	2.4	4.6

Source: Guowuyuan Bangongting Diaochashi (State Council General Office Survey Research Office), ed., Geti Jingji Diaocha Yu Yanjiu (Individual Economy Surveys and Research) (Beijing: Jingji Kexue Chubanshe, 1986), pp. 301-2.

Of the categories listed, average incomes were highest in catering (4,405 yuan), construction (3,542 yuan), and transport (3,213 yuan), and lowest in handicrafts (2,717 yuan). Catering had the largest proportion of members earning over 10,000 yuan, but it also had the largest proportion earning under 1000 yuan, which indicates a very broad spread in incomes in that sector.[40]

In addition to sectoral variations, incomes also vary considerably from locality to locality. Unfortunately not enough data are available even to speculate about spatial variations.

Much of the controversy over high incomes is justified, in that at least some of it is earned in questionable ways. The State Council study explains:

> Apart from large businesses with hired employees, those with relatively high or excessively high incomes are mainly in construction contracting, wholesale commerce, catering, and putting out materials for assembly. Their high incomes, apart from those with special skills or business abilities, mostly come from exploiting loopholes such as inconsistent pricing, imperfections in the tax system, and flaws in the relevant legislation; certainly there are also some who seek exorbitant profits through illegal operations.[41]

For many of the same reasons, another source of concern has been the question of paid employees and apprentices. According to the State Council material, in 1985 only 40,000 individual firms, or 0.35 percent of the national total, employed eight or more people, with the largest such firm employing more than one thousand workers.[42] Regulations limit the permissible number to seven, but as will be seen below this rule has not been enforced strictly, with many judgments made on a case-by-case basis. Related ideological and policy issues will be discussed elsewhere in the thesis.

The foregoing sections give a general indication of the demographic characteristics of China's self-employed during the period under study, their business activities, and their impact on the nation's economic landscape. It should also be apparent that all of these questions require detailed research at the local and firm level before any really firm conclusions can be drawn or further analysis made with any degree of confidence.

Conclusion

This chapter has introduced the aims, methods, and major themes of this thesis, and briefly reviewed the relevant literature on the individual economy. It has given definitions of important terms, traced the growth and structure of the individual sector during the period under study, and outlined what is known about the demographic features of the urban

self-employed. Subsequent chapters will discuss in more detail the issues raised in this brief introduction to the study of China's urban individual economy.

Notes

1. Lu Wenfu, "The Man from a Pedlars' Family", in A World of Dreams, Beijing: Panda Books, 1986.

2. On the distinction between public (gongkai faxing), domestic (guonei faxing) and internal (neibu faxing) publications, see Jorg-Meinhard Rudolph, "China's Media: Fitting News to Print," Problems of Communism (July-August 1984), p. 58: "In terms of availability, 'public' materials are the least restricted, as nobody is excluded from buying, reading, or subscribing to them. Access to 'domestic' publications, which are not for export, is slightly more restricted, and foreigners outside China as well as foreign research institutions generally can not obtain them. Inside the PRC, however, publications in both categories are more or less in the public domain and are available for interested PRC citizens (as well as foreigners) without special authorization. Only the 'internal' materials are highly restricted, with access limited to entitled individuals. Foreigners as well as PRC citizens are generally excluded from buying or even reading books and periodicals thus classified."

3. For a very helpful categorization and critical discussion of the various models of the policy process in China, see Harry Harding, "Competing Models of the Chinese Communist Policy Process: Toward a Sorting and Evaluation," Issues and Studies 20 (February 1984): 13-36. One model which has been found particularly illuminating, especially as it deals with areas of policy-making so close to this study, is Solinger's work on commerce, which utilizes a "three-tendency" (bureaucratic, marketeer, and radical) model to sort out the different and often conflicting policies toward commercial activity which have surfaced in China over the last several decades. See, for example, Dorothy J. Solinger, "Commerce: The Petty Private Sector and the Three Lines in the Early 1980s," in Three Visions of Chinese Socialism, ed. Dorothy J. Solinger (Boulder: Westview Press, 1984), pp. 73-111.

4. See, for example, Elizabeth Perry and Christine Wong, The Political Economy of Reform in Post-Mao China (Cambridge: The Council on East Asian Studies, Harvard University, 1985); Bill Brugger, ed. Chinese Marxism in Flux 1978-84, (London: Croom Helm, 1985); Stephan Feuchtwang and Athar Hussain, eds. The Chinese Economic Reforms (London: Croom Helm, 1983); and Neville Maxwell and Bruce McFarlane, eds. China's Changed Road to Development (Oxford: Pergamon Press, 1984); as well as many articles in such journals as The China Quarterly, Modern China, Pacific Affairs, and Asian Survey, as well as the Taiwan journal Issues and Studies.

5. See, for example, the collections China: Urbanization and National Development, ed. C.K. Leung and Norton Ginsburg, Department of Geography Research paper No. 196 (Chicago: The University of Chicago, 1980), China in Readjustment, ed. Chi-Keung Leung and Steve S.K. Chin, Selected Seminar Papers on Contemporary China V (Hong Kong: Centre of Asian Studies, University of Hong Kong, 1983); and Development and Distribution in China, ed. Chi-Keung Leung and Joseph C.H. Chai, Selected Seminar Papers on Contemporary China VI (Hong Kong: Centre of Asian Studies, University of Hong Kong, 1985), all of which contain several articles by geographers.

6. See Clifton W. Pannell and Laurence J.C. Ma, China: The Geography of Development and Modernization (London: Edward Arnold, 1983), especially the chapter on urbanization.

7. Norton Ginsburg, "Urbanization and Development Processes, Policies, and Contradictions", in China: Urbanization and National Development, pp. 277-78.

8. Sen-dou Chang, "Urbanization and Economic Readjustment in China", in China in Readjustment, p. 198.

9. Victor F.S. Sit, "The Informal Sector within a Communist Industrial Structure: The Case of the People's Republic of China", in Spatial Analysis, Industry and the Industrial Environment, Vol 3: Regional Economies and Industrial Systems, ed. F.E.I. Hamilton and G.J.R. Linge (New York, John Wiley & Sons, 1983), pp. 552-53. See also (by the same author), "Collective Industrial Enterprises in the People's Republic of China," Geografiska Annaler Series B (Human Geography), no. 2 (1983), pp. 85-94; and "Urban Neighbourhood Workshops", in China: Urbanization and National Development, pp. 233-255. Another study by a non-geographer which utilizes the formal-informal dichotomy to study small urban enterprise in China (but which confines itself to the collective rather than individual sector -- this distinction will be explained below) is Martin Lockett, "Small Business and Socialism in Urban China", Development and Change Vol. 17 (1986), pp. 35-67.

10. In questions of translation, this thesis generally follows The Pinyin Chinese-English Dictionary, compiled by the Beijing Foreign Languages Institute, published in China in 1978 and in Hong Kong by Commercial Press in 1979, which reflects contemporary political and economic usage in mainland China. For technical economic terms two very useful references are Accounting Terminologies in Use in the People's Republic of China and in the United States, edited by Lou Er-ying and John B. Farrell, published in China in 1985 by Shanghai Renmin Chubanshe, and in Hong Kong by Joint Publications; and A Glossary of Economic and Commercial Terms (Chinese-English) (Chinese title: Jingji Maoyi Cihui), ed. Xie Zhenqing (Beijing: Zhonghuo Duiwai Jingji Maoyi Chubanshe, 1986).

11. Unless otherwise noted, all translations from the Chinese are by the author. As anyone who regularly reads contemporary PRC official or academic writing knows, there is a certain repetetiveness to much of the rhetoric which is difficult to root out of English translations. For stylistic reasons the vocabulary has been varied, but every effort has been made to stay as close as possible to the sense of the original text.

12. Yu Ruhai and Zhang Yi, ed., Chengxiang Geti Gongshang Hu Jingying Shouce (Operating Handbook for Urban and Rural Individual Industrial and Commercial Enterprises), (Guiyang: Guizhou Renmin Chubanshe, 1985), p. 1.

13. "Zhongguo Xian Jieduan Geti Jingji Yanjiu" (Research on China's Individual Economy at the Present Stage), Jingji Wenti Tansuo (Exploration of Economic Problems), no. 15 (Supplement No. 1, March 1982), p. 1.

14. Duan Enman and Li Shiyun, ed., Geti Jingji Fagui Zhishi (Legal Knowledge About Individual Economy), Puji Falu Changshi Congshu (Dissemination of General Legal Knowledge Series) No. 3 (Shenyang: Liaoning Daxue Chubanshe, 1986), pp. 1-2.

15. For example, this author visited a private coffee shop in Guilin whose owner took advantage of foreign exchange restrictions to operate as a front for a lucrative sideline business changing Foreign Exchange Certificates and foreign currency to local currency for foreign customers, at rates much better than those offered by the Bank of China -- the only legal money-changer. The foreign exchange was used to buy imported merchandise in the Friendship Store which was resold to other individual operators who in turn sold the items for healthy profits in other parts of the country. Practices like this appear to be not at all uncommon.

16. For the most recent installment of this debate, prompted by the release of new urban population statistics, see Thomas Scharping, "Comment: Urbanization in China Since 1949," China Quarterly No. 109 (March 1987) and a reply by Kam Wing Chan in Ibid., pp. 104-109. Two English-language works central to this debate are Kam Wing Chan and Xu Xueqiang, "Urban Population Growth and Urbanization in China Since 1949: Reconstructing a Baseline," China Quarterly, No. 104 (December 1985), pp. 583-613; and Richard Kirkby, Urbanisation in China: Town and Country in a Developing Economy, 1949-2000 AD (London: Croom Helm, 1985), especially Chapter 3. See also Leo A. Orleans, "China's Urban Population: Concepts, Conglomerations, and Concerns," in China Under the Four Modernizations, Part 1 (Washington: Joint Economic Committee, Congress of the United States, 1982), pp. 268-302.

17. Kirkby, for example, claims (p. 57) that his study was motivated by "the complete absence of any coherent analysis of urban statistics -- both within China and amongst the Western specialists ..."

18. Ibid., pp. 58-60.

19. Ibid., pp. 60-61. The actual criteria used to define zhen are unclear and apparently have changed over the years. See Kirkby, pp. 73-87.

20. However, to the best of this author's knowledge, non-agricultural households in the countryside do have "rural" registration. The distinction between rural and urban household registration is tied to the system of grain rationing which by the end of 1984 was still in operation, although in a more and more attenuated form as more grain was being sold on the free market. It is also (and arguably more importantly) a method of restricting rural-urban migration. See Martin King Whyte and William L. Parish, Urban Life in Contemporary China (Chicago: University of Chicago Press, 1984), pp. 18-19, and Kirkby, p. 80.

21. See Scharping, "Comment;" pp. 100-101. According to Kirkby (p. 88), Chengzhen "includes only those places which have been designated municipalities (shi) and town (zhen) ... It counts all such places. For the municipalities, only their non-agricultural population is enumerated as urban. For the zhen, the position is less clear cut ... The number of shi has, generally, risen year by year. The number of zhen, however, has fluctuated wildly with changing size-class criteria."

22. For a discussion of methodological problems in using official employment statistics, particularly for 1966-75, see John Philip Emerson, "The Labor Force of China, 1957-80," in China Under the Four Modernizations, Part 1, (Joint Economic Committee, Congress of the United States, 1982) pp. 227-230; the same author discusses problems of reliability of unemployment figures in "Urban School-leavers and Unemployment in China," The China Quarterly, no. 93 (March 1983), pp. 2-6.

23. At the same time, there were probably several million unlicensed operators; one probably reliable estimate for 1985 places the figure at six million. See Guowuyuan Bangongting Diaoyanshi (State Council General Office Survey Research Office), ed., Geti Jingji Diaocha yu Yanjiu (Individual Economy Surveys and Research) (Beijing: Jingji Dexue Chubanshe, 1986), p.3.

24. See "Communique on Fulfilment of China's 1984 Economic and Social Development Plan," Beijing Review, no. 12 (March 25, 1985), pp. V-VI.

25. See Zhongguo Xian Jieduan Geti Jingji Yanjiu (Research on China's Individual Economy at the Present Stage), Jingji Wenti Tansuo (Exploration of Economic Problems), No. 15, (Supplement No. 1), March 1982, pp. 45 and 47.

26. Ibid., p. 48.

27. This information comes from the 1982, 1984, and 1986 editions of Zhongguo Baike Nianjian (Encyclopedia of China Yearbook) (Beijing: Zhongguo Baike Quanshu Chubanshe).

28. See Guowuyuan Bangongting Diaoyanshi (State Council General Office Survey Research Office), ed., Geti Jingji Diaocha Yu Yanjiu (Individual Economy Surveys and Research) (Beijing: Jingji Kexue Chubanshe, 1986), especially pp. 13-133 ("Comprehensive Surveys"). This book was published for internal circulation (i.e. not intended for foreign readers), and contains some of the most detailed and balanced studies this author has seen on the subject. It summarizes the situation as of the end of 1985. However the categories used in these studies are not standardized and the analysis tends to gloss over certain important questions. The information below was extracted from pp. 21 (Shanghai), 61 (Zhejiang), 76 (Guangdong), 87 (Nanjing), 109 (Wuhan), and 118 (Shenyang). Chinese terms are given for clarification.

29. Shen Ping-yu, "The Role of the Informal Sector in China's Urban Development -- Case Studies of Changshu City and Linhuai Town," Paper Presented at International Seminar on the Role of the Informal Sector in Urban Development, Berlin: 17-27 February 1985, pp. 21-22.

30. See Chen Rufeng, "An Investigation on the Participation of Youth in Individually Managed Businesses [Individual Economy] in Shanghai," Chinese Sociology and Anthropology, no. 1-2 (Fall-Winter 1983-84), p. 179-180.

31. Zhang Hao, Chen Jian, and Fang Kuan, "Beijing Shi Chengqu Qingnian Geti Jingying Qingkuang de Diaocha" (A Survey of the Situation of Self-Employed Young People in Beijing's Urban Districts), Jingji Yanjiu, no. 5 (1982), p. 55.

32. Li Wenhui, "Bixu Dui Congshi Geti Jingji de Qingnian Jiaqiang Zhidao" (We Must Strengthen Guidance of Youths Engaged in Individual Economy), in Qingnian Jiuye de Tansuo yu Shijian (Exploration and Practice of Youth Employment), ed. Han De (Beijing: Zhongguo Shehui Kexue Chubanshe, 1983), p. 270.

33. Tian Jie, Bo Huiru, and Zhao Piao, "Kaipi Geti Jingji de Jiuye Qudao" (Open up the Individual Economy as a Channel of Employment), in ibid., pp. 245-46.

34. Guowuyuan Bangongting, pp. 22, 51, 62, 76, 87-88, 110, 118-9.

35. See Shen Ping-yu, "The Role of the Informal Sector", pp. 22 and 26.

36. Zhang Hao, Chen Jian, and Fang Kuan, "Beijing Shi Chengqu Qingnian Congshi Geti Jingying Qingkuang de Diaocha" (Investigation of the Circumstances of Young People Running Individual Operations in Beijing's Urban Districts), Jingji Yanjiu (Economic Research), no. 5 (1982), p. 55. (For an English translation see CEA, 13 July 1982.) A follow-up study of "model" self-employed workers in August 1983 reported that 40% were women and concluded that this represented an increase in female participation in the individual sector, but it could just as easily have represented a disproportionate number of women among "models" -- perhaps in an effort to coax other young women into the sector. See Chen Jian, Chen Gang, and Fei Suizi, "Congshi Geti Laodong de Qingnian Qiantu Guangming" (A Promising Future for Self-Employed Youth), in Woguo Xin Shiqi de Laodong Jiuye Wenti (Labour Employment Problems in Our Country in the New Period), ed. Zhuang Qidong (Jinan: Shandong Renmin Chubanshe, 1984), pp. 136-37.

37. Chen Rufeng, "An Investigation on the Participation of Youth in Individual-Managed Businesses [Individual Economy] in Shanghai", Chinese Sociology and Anthropology, no. 1-2 (Fall-Winter 1983-84), p. 189.

38. On female unemployment, see "Women's Journal Calls for Attention to Women's Employment", Beijing Xinhua Radio, 15 September 1980, trans. in FBIS, 17 September 1980, p. L17.

39. See Guowuyuan Bangongting Diaochashi (State Council General Office Survey Research Office), ed., Geti Jingji Diaocha Yu Yanjiu (Individual Economy Surveys and Research) (Beijing: Jingji Kexue Chubanshe, 1986), p. 9. According to an economist with the Jilin Province Academy of Social Sciences, at some point during the period under study the definition of wan yuan hu was changed from 10,000 yuan in capital to 10,000 yuan in annual income, because the group was getting embarrassingly large.

40. Ibid., p. 301.

41. Ibid., pp. 9-10. The passage goes on to say that "Individual firms with excessively high incomes, while on the surface forming a small proportion, have quite a large societal influence, their influence on the enthusiasm of employed workers and staff [in state-run and collective enterprises] in particular is quite large. This must be taken seriously and appropriate measures adopted ..." For an interesting analysis of the societal impact of these wan yuan hu, see Ling Kongshan, "Geti 'Wan Yuan Hu' Zai Shehuizhong de Yinxiang" (The Influence on Society of Individual "Ten-Thousand Yuan Households"), Shehui (Society), no. 2 (1986), pp. 14-14.

42. Ibid., p. 6.

CHAPTER II

THE INDIVIDUAL ECONOMY, 1949-78

Introduction

This and the following chapter present a chronological account of the history of central policy toward the individual economy in the PRC, first as it evolved during the period from 1949 to 1978, and then under the post-1978 period of economic reform. This chapter first recounts the history of the individual economy during the three decades from the establishment of the PRC to the death of Mao and the arrest of the Gang of Four in 1976, weaving into the narrative a discussion of the relevant ideological/political/economic trends. The narrative is picked up again in the next chapter, beginning roughly at the beginning of 1978. The last part of the current chapter deals in a more thematic way with the economic issues that confronted the new regime in 1978, and with the formulation of a new (or resurfaced) strategy of economic development to address them. The final section focuses more closely on the two practical issues which were most influential in shaping policy toward the individual economy from 1978 onwards: unemployment and the stagnation of the urban tertiary sector.

The History of the Individual Economy, 1949-76

This section presents a detailed account of the vicissitudes of small private enterprise throughout the three

decades from the establishment of the People's Republic to the end of the Cultural Revolution decade. In the course of the narrative, it becomes obvious that there has been continuity of a sort since 1949 in the way the individual economy has been handled, characterized not by consistency but by the ambivalence of policymakers and administrative personnel, and insecurity for the traders. Throughout this period, the long-term goal of eventual incorporation into the socialist economy has scarcely wavered, if official proclamations are to be believed. But this long-term objective has had to be balanced against short-term and local economic conditions, as well as the continuing need to provide employment and to supply the population with basic goods and services. It has also been continually reinterpreted in the light of political/ideological trends and struggles, to produce a situation in which small private entrepreneurs were at some times tolerated and at others vilified, at some times urged toward collectivization, and at others told to wait until the time was ripe. But even during the most tolerant of periods, they were never entirely secure.

Swings in policy toward small private enterprise corresponded to more general political and policy trends in the three turbulent decades from 1949 to 1978. For our purposes, the period can be divided into the following phases:

1. 1949 to mid-1955: gradual socialization
2. late 1955 to mid-1956: the "high tide of socialism"
3. late 1956 to late 1957: the Hundred Flowers and anti-rightist campaigns

4. 1958-60: Great Leap Forward
5. 1961-65: post-Leap recovery and retrenchment
6. 1966-76: Cultural Revolution decade
7. 1976 to 1978: early post-Mao period

Phases 1 and 3 were periods of relative tolerance for the individual economy, in which private enterprise was controlled largely through administrative means, while its positive contribution to the economy as a whole was recognized, if increasingly grudgingly. Both of these phases ended in a spasm of rapid "organization" or collectivization of small private firms (Phases 2 and 4), both of which took a heavy toll on the sector. Phase 5 saw a return to leniency, which gradually faded as the economy recovered and political struggles took precedence. During the Cultural Revolution decade a relatively successful attempt was made to wipe out once and for all the remnants of private enterprise. Once it ended and policies were relaxed, there was a more or less spontaneous resurgence of the individual economy, which gradually came to be recognized and supported in policy as the momentum of reform mounted.

The Individual Economy, 1949-55: Gradual Socialization

The first practical task of the CCP upon taking power was to rebuild the economy. It inherited a country with a structurally undeveloped economy ravaged by years of foreign invasion and civil war, cities swollen with destitute refugees but depleted of their wealth by fleeing capitalists, and an

already-primitive distribution system in disarray. The urban economy, apart from pockets of "modern" large-scale enterprise, particularly in the former treaty ports, was dominated by millions of small-scale factories, shops, stalls, and itinerant hawkers.

Over 90 percent of the retail merchants in China at the time of liberation--about 7 million people--were classified as "small vendors and peddlers" (xiao shang xiao fan), and more than one-third of them resided in the cities. There was probably an equal number of individual handicrafts workers.[1] Given their vast numbers and the more pressing priorities of economic recovery, it was obvious that whatever the socialist city of the future was to look like, for the time being petty private enterprise would persist and even proliferate. This was all the more true because individual handicrafts workers and peddlers had been classified as class allies of the proletariat and therefore were not officially considered a threat to the revolution. Even capitalists were being treated relatively leniently for the time being.

This principle was enshrined in Mao's "general line for the transition period":

> The time from the founding of the Chinese People's Republic to the practical completion of socialist transformation is a transition period. The general line and main tasks in the period are, over a relatively long period, to realize step by step the socialist industrialization of the country and the state's socialist transformation of agriculture, handicrafts, and capitalist industry and commerce.[2]

Although during the transition it was considered "inevitable that a non-socialist economy should exist side by side with the socialist economy in the new society," within the non-socialist economy a careful distinction was drawn between the capitalist sector, which was dependent on the exploitation of hired labour, and the individual sector, which was defined to include "individual farming, handicrafts, and other privately-owned enterprises based on individual labour."[3]

Until late 1955, although larger private enterprises were absorbed into the socialist sector by various means (including outright expropriation and various kinds of public-private joint management), most of the small merchants and individual handicrafts producers, vendors, and peddlers were allowed to operate essentially unhindered, although various economic and administrative means were used to draw them into a distribution network increasingly dominated by the state. This very lenient policy is reflected in the Constitution promulgated in 1954 which recognized "ownership by individual labourers" as one of four legitimate forms of ownership of the means of production, along with state, collective, and capitalist ownership. It also said, however, that while the state would "protect the ownership rights" of individual labourers, and would "lead and help individual handicrafts workers and other non-agricultural individual labourers to improve their operations," it would "also encourage them, according to the principle of voluntarism, to organize production cooperatives and supply-and-marketing cooperatives."[4]

Despite the lip-service paid to the principle of gradual cooperativization, until 1955 the individual sector was in fact allowed considerable autonomy. Even such a basic measure as the registration of small private enterprises was not strictly enforced. The policy adopted was one of "cleanup and reorganization" rather than wholesale restructuring. In Shanghai, small urban commercial units were quickly subjected to taxation and accounting measures, but were not registered until 1951-52. They were issued licenses and taxed at differential rates according to three factors: type of merchandise, urban versus suburban location, and scale of enterprise. Administrative control was in the hands of "market management committees" and "hawker management committees", organized and administered at the urban district level. They did not set prices, and in general their control was lax. Unlicensed activity continued to proliferate.[5]

A similar situation existed in Guangzhou, with perhaps less leniency than in Shanghai. Registration and data collection on all commercial businesses, including street vendors and carts, occurred in March 1950. According to Vogel's study of Guangzhou,

> Because leaders regarded commercial establishments as more expendable than industrial ones they adopted a much harsher policy toward them. Many kinds of commercial establishments disappeared, but unless this affected the circulation of key supplies or seriously increased unemployment this did not worry the leaders.[6]

For example, only twenty legal locations were designated for street-vendors, after 32,573 such carts were registered, and owners were required to keep detailed accounts.[7]

Despite such measures, the urban individual sector continued to grow during the first few years after the founding of the PRC, at least in absolute terms. For the country as a whole, the number of individual vendors rose to over 8 million by the end of 1952, but their proportion of the country's total retail personnel had already begun to fall--from over 90 percent in 1949 to about 85 percent in 1952.[8] Their contribution to the national economy was considerable. One estimate is that in 1953, 9 million individual producers and operators in China's cities contributed 16.6 percent of the national revenue through taxes.[9] Another study cites a 1954 survey which revealed over 8 million urban individual handicrafts producers and about 3.3 million individual vendors and peddlers.[10]

By 1953 some measure of economic stability had been achieved, and attention was turned to the longer-term goal: the "socialist transformation" of the economy. This was the major thrust of the first five-year plan (1953-57). As before, the plan called for a careful distinction between "capitalist commercial enterprises and small proprietors working independently," and advocated benign treatment of the individual sector during the transformation process. Individual handicrafts producers would be "gradually led ... by persuasion on to the road of co-operation in the first five years," but the plan also stipulated that as the co-ops expanded, "we must also give consideration to the handicrafts producers working on their own so that both co-operative and individual handicrafts are included in a unified and reasonable arrangement."[11] The individual

operators' share of the total value of production in handicrafts, which had been 96.6 percent in 1952, was to decrease to a still-considerable 61.3 percent by the end of the plan period.[12]

Individual commercial enterprises were to be given similarly gentle treatment. They were also to be drawn gradually into the cooperative sphere, but "suitable arrangements should be made as the transformation takes place; ... while transformation goes ahead in the commercial field, ... it is necessary, on the other hand, to see that the livelihood of the people engaged in private commerce is maintained during the transformation." While small-scale capitalist businesses were to be "transformed step by step into various forms of state capitalist enterprise", the small independent operators "should be allowed to continue in business if their operations benefit trade between town and countryside." At the same time, however, they were to be drawn into the public-sector net either as commission distributors, agents, or actual employees of public-sector units. By the end of the plan period, privately-handled retail sales were to account for almost half of all retail sales, "of which a considerable proportion will be handled by peasants and handicrafts producers who sell their products themselves or by small traders and pedlars."[13]

By the end of 1955 about 2.5 million individual vendors (over 30 percent of the total) had been amalgamated into various kinds of cooperative units, along with about 2 million individual handicrafts producers (about 40 percent of the total).[14] But the pace of transformation was uneven. Although after 1952 the total

number of hawkers and peddlers began to drop--to about 6 million by the eve of the socialist "high tide"--in many cities they continued to multiply until 1955. In Shanghai, for example, there were 78,000 more individual hawkers (tan fan) in 1955 than there had been in 1949.[15] In Canton on the eve of the "high tide" only 11,000 of the approximately 92,000 handicrafts workers (less than 12 percent) had been organized into cooperatives.[16]

The newly-emerging cooperatives--handicrafts co-ops, marketing co-ops, and consumer co-ops--had two effects on the individual economy. On the one hand they absorbed large numbers of individual vendors and manufacturers, and on the other they competed from a position of advantage against the remaining small private firms for their share of the market. The consumer co-ops developed the most quickly and formed the largest threat to small private shops, selling daily necessities at lower prices than on the free market.[17] In Canton consumer cooperatives as early as mid-1950 had begun to dominate the market and set the prices for daily necessities.[18]

At the same time, the remaining private enterprises were also placed under more direct control of state agencies and enterprises. The wholesale distribution of many key commodities, such as grains, oilseeds, cotton, and clothing, were taken over by the state through the mechanism of "planned purchase and supply."[19] In general private wholesale trade was severely circumscribed, and private retailers basically became distributing agents for cooperatives or the state, selling on a commission basis.[20]

The Socialist "High Tide", 1955-56

Thus by the time the socialist transformation really hit its stride, a certain amount of private commerce and industry had already been cooperativized, and the rest had come under either direct or indirect state control by means of administrative and economic linkages. For a few months in late 1955 and early 1956, a serious effort was made to convert all remaining private operations immediately to socialist forms--thus undercutting the recently-published First Five-Year Plan. This "high tide" of socialism was initially aimed at the countryside (following a speech Mao Zedong gave in July 1955 urging the speeding up of agricultural cooperativization) but the focus shifted to urban private businesses with the Sixth Plenum of the Seventh Central Committee in early October. The campaign began in earnest in Beijing, where the city's mayor, Peng Zhen, seemed particularly determined to root out the last remnants of private enterprise, despite the slower timetable laid down by top central leaders, apparently including even Mao.[21]

At the end of December a Beijing municipal party conference called for the completion of the transformation by the end of 1956. As it turned out, all capitalist industry and commerce in Beijing was transformed in the first ten days of 1956, and handicrafts two days later. According to MacFarquhar,

> ... at first this may have meant little more than a change of description ... but in some cases there was "blind amalgamation." The feat was quickly celebrated by a rally in T'ien An Men Square on the 15th, attended by Mao, Liu Shao-ch'i, and Chou En-lai.[22]

Other cities such as Wuhan and Shanghai soon followed Beijing's lead, so that "by the end of January the process had been basically completed in all China's main industrial towns."[23]

The rapid transformation was quickly followed by an effort on the part of the more moderate leaders, particularly Chen Yun, to slow down the real, as opposed to apparent, rate of change. On 8 February 1956 the State Council passed a decision that effectively pulled the teeth out of much of the transformation effort. The decision explained that " ... the people's councils of many cities have since January this year approved in one lot joint ownership of private industry and commerce and cooperation of handicrafts instead of effecting socialist transformation ... by separate stages and groups." It cited "dislocations" that had emerged as a result of inadequate preparation and organization, as well as "improper methods adopted by certain state firms, state banks and tax offices," which "produced certain undesirable effect [sic] on production and management." The aim of the new decision was to "change these phenomena and to provide us with ample time to carry out socialist transformation trade by trade ..."

The main thrust of the decision was that "private enterprises should in general continue their operations as formerly for about six months beginning from the approval of joint ownership." Even after that, real transformation was to be carried out gradually on the basis of "detailed investigations" and "over-all plans." Capitalist industry and commerce was to be studied carefully, so that "irrational" methods could be reformed

while the "rational part" was "fully applied in the jointly owned enterprises and State enterprises." "Useful" capitalist production and management techniques, the decision stated, "we should regard as the national legacy ... and on no account should we totally negate them without analysis."

The particular point was made that small traders--"the numerous, widely scattered small shops"--could be approved for joint ownership if they applied, but that "for the time being they should be retained as buying and selling agencies for state enterprises on a commission basis," and that "they can still handle part of the commodities not handled by state commerce and cooperative commerce", which would neverthess "according to the principle of over-all planning for whole trades, organize the business of these small shops, whether they have come under joint ownership or not." The transformation of stalls and peddlers was to be "deferred for the time being":

> To meet the demand of the people, the existing way of business should be preserved for a long time to come in the case of the majority of pedlars while the method of organizing all pedlars of the same type into forms of cooperative management based on unified funds should not be adopted. Hereafter, the pedlars of many trades should be organized and transformed in a simple form, for instance, simple registration with the coooperatives or with a certain department of state enterprises.

Similar provisions were made for individual handicrafts producers. Those who had already joined cooperatives were basically to continue operating as before "without premature and hasty concentration and unified management." As for small-scale repair and service enterprises,

> ... the inherent factors of popular convenience and their quality should be preserved ... Those handicrafts which are suitable for individual management and whose workers are reluctant to join cooperatives, should continue to be managed individually.[24]

There seems to be no doubt that the socialist transformation substantially reduced the numbers of individual vendors and handicrafts producers. But there is some uncertainty as to the precise numbers, and to the actual degree of difference the cooperativization made. According to one Chinese source published in 1981, during the "high tide" about three million individual handicrafts producers entered co-ops, bringing the number of all individual handicrafts producers in co-ops to five million, or 90 percent of the total number of such producers. The record for individual vendors and peddlers was similar--of a total of over six million, 90 percent had been organized into cooperatives by the end of the "high tide":

> By 1957, very few individual handicrafts producers or individual vendors remained. In the spring of 1958 there were 700,000 individual handicrafts producers left, and only about 6-700,000 individual vendors. That is, by the time the socialist transformation was basically completed, there were only about 1.3 to 1.4 million urban individual industrial and commercial enterprises left in China.[25]

Nevertheless, compared to the socialization of larger enterprises, the organization into cooperatives of handicrafts, hawkers, and peddlers is seen by at least one observer as "a minor sideshow to the transformation of commerce and industry."[26] Their reorganization was carried out relatively slowly compared to the larger enterprises (taking months as opposed to days) and on the whole seems to have been rather halfhearted. In Guangzhou, according to Vogel:

> Socialist reorganization was even less urgent for the small family stores, street stalls, carts, and baskets [than for handicrafts]. Some stores handling similar types of goods and some stalls in a given location regardless of specialty were organized into cooperatives, but there was no high tide of collectivization. By June 1956, of the 40,000 stall and cart owners, only about 45 percent or 18,000 had been brought into some kind of collective organization. Others remained private as long as they did not grow too prosperous.[27]

Apparently for many of those who were "transformed" the change was only nominal. Says one Chinese study,

> ... the majority [of individual firms] were organized into cooperative shops or groups, but some were left alone. Some, although they had entered cooperatives, were permitted to be responsible for their own profits and losses; in Beijing they were called "red hat firms" (hong maozi hu).[28]

In Solinger's opinion "only a very small proportion of the firms said to have been converted in commerce had actually undergone any significant degree of change in their operations or form of ownership by the end of 1956."[29] She bases this conclusion on statistics published in China which show that of the 82.2 percent of commercial firms which were said to be "transformed," only about half were truly collectivized (i.e. absorbed either into joint public-private enterprises or cooperative shops with collective management of profits, losses, sales, and purchases.)[30] A 1982 Chinese study concludes in a similar vein:

> Although cooperative shops and cooperative small groups [the major forms used in the transformation of individual vendors and peddlers] are a kind of mutual aid organization, they all still retained share dividends or interest, that is they recognized the right of individual ownership of shares, and when members left or retired, their shares reverted to them, so they did not basically change their individual ownership.[31]

Ironically, many of the small operators who wanted to be "transformed" were not permitted to do so. Small traders in Canton, seeing that their relative position in the economic and social hierarchy was steadily deteriorating, requested to become state enterprises in order to qualify for the various benefits accorded to state employees. They were told to be patient and to

> ... continue to preserve the structure of serving as agents for the state ... Serving as agents of the state is, after all, a kind of socialism ... Preserving the present structure is not to prevent them from going the path of socialism ... In the future the government, using appropriate methods, must advance still further toward transforming them.[32]

Late 1956 to Late 1957

The two years following the "high tide" began with relatively tolerant policies toward small private trade and handicrafts, and ended with almost complete prohibition. It was also a period of intense debate about the correct approach toward handling this sector, couched in a more general controversy about the future orientation of economic policy. From the point of view of post-78 developments regarding the individual economy, 1956-57 is a crucial period. Many of the arguments revived to justify the re-emergence of the sector after 1978 were voiced in 1956-57 by top economists and policy-makers like Liu Shaoqi, Chen Yun, and Xu Dixin. If the experience of the "high tide" was the source of their moderate position toward the handling of small private trade, they would have to wait two more decades for their views to be vindicated.

The political climate following the "high tide" was one of uncertainty and rapid change. From early 1956 to mid-1957, efforts were made to respond to and deal with the dissatisfaction among many groups in society with the policies and progress of the PRC in its first decade. There was open disagreement and debate among the top leadership about basic issues, policies and strategies. The spring of 1957 saw the brief blooming of the "Hundred Flowers" campaign, in which criticisms of the party's policies were actively solicited.[33] It was quickly followed in June by the inception of a virulent "anti-rightist" campaign in which many of those who had voiced criticisms were counterattacked and labeled as "rightists"--labels which in some cases were not removed for twenty-five years.

The political turmoil was reflected in the economic sphere. It was clear that during this period factions within the leadership were battling out the general orientation of policy towards economic development. Simply speaking, there were two approaches: the "radical" one generally identified with Mao Zedong and Chen Boda which favoured mass mobilization, fast-paced labour-intensive development, and rapid collectivization; and the more "moderate" one represented by Liu Shaoqi and Chen Yun, who argued for the utilization of market forces, balanced development, rational planning, and expanded circulation of commodities. It was the latter view which dominated the stock-taking held during the Eighth Party Congress of September 1956. But by the end of 1957 it was clearly giving way to the former, more "radical" approach.

The re-evaluation of the policy of rapid eradication of private ownership in the transition to socialism was a major feature of discussion at the Eighth Party Congress. In their reports to the Congress both Liu Shaoqi and Chen Yun counselled the return to a more moderate approach in transforming the economy. In Liu's political report he recalled the general line for the transition period, which had stressed that the socialist transformation would be a gradual and peaceful process, achieved by co-operating with rather than alienating the urban petty bourgeoisie. He reminded his audience that this was the line "first put forward in 1952 ... It was accepted by the National People's Congress in 1954, and written into the Constitution ... as the fundamental task of the state in the transition period."[34]

Liu summed up the progress made so far in the socialist transformation of handicrafts and individual merchants and peddlers. He described the considerable economic difficulties facing the remaining individual handicrafts workers since the transformation; forced to rely on state wholesalers, supply-and-marketing co-ops, and capitalist enterprises for raw materials, marketing of products, and capital, "most of them have found things difficult and have nothing to fall back on in the event of illness, injuries or death."[35] Because of their insecurity, he said, many wanted to organize into cooperatives.

Liu next turned to the small merchants and peddlers, whom he described favorably as "individual working people in the realm of commerce." For them he basically counseled limited cooperativization:

> The cooperative groups formed by the small merchants and pedlars act as commission agents and make purchases for state trading departments and the supply and marketing cooperatives. Their way of management will follow the old practice of scattered and mobile operations to suit the consumers' convenience, and features peculiar to their management with conform [sic] to social needs will be preserved as of old.[36]

Although Liu admitted to "shortcomings and mistakes" in the course of socialist transformation, he was sanguine about its basic objective:

> ... the extremely complex and arduous historical task of converting the system of private ownership of means of production into the system of socialist public ownership has now been basically accomplished in our country. The question of who will win in the struggle between socialism and capitalism in our country has now been decided.[37]

He went on to stress, however, that the transformation had not yet been completed and that many problems still remained. Regarding "the transformation of handicrafts and what used to make up other sections of individual economy," these problems "must be tackled on the merits of each case. ... Here, it would be wrong to ignore different concrete conditions and use a set form for all cases." Some such enterprises would eventually develop into or be merged into state enterprises; others would "under the administration of socialist enterprises, keep their original form of management" in which they would be responsible for their own profits and losses. Liu also stressed that "All kinds of cooperatives must pay attention to keeping and developing whatever fine traditions the original individual economy has in production and in management."[38]

The theme was taken up by Chen Yun, in his speech to the Congress on "New Problems in Transformation of Industry and Commerce." He noted that the major mistake in the process of transformation was too-rapid amalgamation into cooperatives, leading to reductions in the supply of consumer goods and in the quality and variety of products: "Blind amalgamation and unified management must be checked." Chen counseled that

> ... the great majority of service and manufacturing trades should not be amalgamated. ... [W]e must change many large cooperatives into small cooperatives; we must change the system of unified accounting ... by large cooperatives into a responsibility system for small cooperative teams or individual households.

In commerce too,

> ... there should be appropriate decentralization where too many organs have been amalgamated. The practice of small businessmen and pedlars plying their separate trades within a cooperative team should be preserved for a long period to come."[39]

The economic results of the rapid transformation had certainly not been impressive. Although the first five-year plan period saw an overall increase in trade turnover, there were also severe bottlenecks and inedaquate production of consumer goods. In 1956 following the "high tide", the press carried many stories highlighting the problems of supervising the newly-formed cooperatives, the members of many of which had not substantially changed their modes of operation and were not really incorporated into the planning process. In any case, the planning process was not yet sophisticated enough to handle the detailed coordination of millions of small manufacturing and commercial units. Amalgamation of small retail shops and stalls, coupled with the

cooperativization of wholesale trade, led to a reduction in the total number of retail outlets, generally shorter business hours, fewer goods on the market, and less responsiveness to consumer demand. The general inconvenience to consumers was heightened by the disappearance of many of the itinerant hawkers (since registration and consolidation favored fixed locations). Urban unemployment was also a major problem. All of these problems and more caused general disenchantment with many of the policies for socialist transformation.[40]

By the beginning of 1957, rural and urban free markets, which had been closed down during the socialist transformation, were reopened to allow peasant producers to sell "sideline" products (i.e. those not governed by state plans). The purpose was to relieve bottlenecks in the trade network now controlled by the various cooperatives as well as to boost rural incomes. However the reopening of the markets in the context of the shortages and bottlenecks described above, also provided opportunities for many violations, including speculation and trading in planned commodities. The markets were closed down again by the end of 1957.

In late 1956-57, many of the newly-cooperativized small vendors and producers were still acting as if they were private businesses.[41] In addition, new and genuinely private firms were rapidly springing up, without bothering to register with the authorities. These "spontaneous enterprises" (zifa hu) were mostly very small factories, staffed by housewives, peasants, unemployed workers, members of disbanded cooperatives--that is,

would-be workers for whom there were no jobs in the state sector--responding to consumer demand for the very goods and services that had become scarce after the socialist transformation. It was reported in Shanghai in March 1957 that there were 5,000 such enterprises employing 16,000 workers, for an average of just over three workers each. Nationwide, a survey of sixteen cities revealed the existence of 57,000 spontaneous enterprises involving almost 120,000 people. About 75 percent of these firms had emerged since the "high tide." The same sixteen cities had over 158,000 unlicensed vendors and peddlers, most of whom had emerged after the high tide, especially since the reopening of the free markets.[42]

This resurgence of private or quasi-private firms highlighted the limited success of the efforts made so far to collectivize small private trade and production, and cast doubt upon the possibility of ever effecting such a transformation. According to Howe,

> ... the new private sector proved to be as unmanageable as the old. It frustrated control over materials supply and prices and it undermined employment and wage control in the public sector. Yet the sector was tolerated (at least in part) until the Great Leap Forward, and nowhere in the 1950s is the conflict between the desire to maintain high levels of output and employment, and the unwillingness to acquiesce in the loss of control that this entailed, more apparent than in the handling of the [spontaneous] enterprises in 1957. Firm measures were taken against "capitalist tendencies" within the public sector; but although the [spontaneous] enterprises were threatened again and again, they were always reprieved from complete extinction on the grounds that the employment and output they provided made them indispensable.[43]

Thus until about mid-1957, the treatment of these spontaneous enterprises and of the individual economy in general

was relatively lenient. But by the end of the year this tolerant attitude toward private trade had all but disappeared. By the middle of June the country was in the thick of the counterattack against "bourgeois rightists" who had dared to criticize the government and party. The anti-rightist campaign began on June 8 with an editorial in Renmin Ribao, and was given the official stamp of approval when a revised version of Mao's speech "On the Correct Handling of Contradictions Among the People" was published in the same paper on June 18.[44]

Mao laid down six criteria for making criticisms of the party or government, the most important of which were those "concerning the socialist path and the leadership of the party."[45] Contradicting Liu Shaoqi's assertion at the Eighth Party Congress nine months before, Mao warned against the premature abandonment of class struggle: "The proletariat seeks to transform the world according to its own world outlook, so does the bourgeoisie. In this respect, the question whether socialism or capitalism will win is still not really settled."[46]

The possible reemergence of capitalism thus became one of the major issues behind the new campaign. Although the economy was still benefiting greatly from the activities of the spontaneous businesses, it was becoming obvious that their days were numbered. This change in attitude is reflected in a major speech made at the December 1957 National Conference of Handicrafts Co-operatives by Xu Dixin, then the head of the General Administration of Industry and Commerce.[47] The theoretical implications of this speech will be discussed in detail in

Chapter 7 below. As a reflection of how much the political climate had changed in the fifteen months since the Eighth Party Congress, and how that change affected the prevailing attitude toward the remnants of the individual economy, several points should be noted here.

Xu explained the purposes and methods of the current rectification campaign as it affected industry and commerce:

> Rectification activities in industrial and commercial circles encompass two types, anti-rightist struggles and ordinary rectification. The anti-rightist struggle is to settle contradictions between ourselves and the enemy, and ordinary rectification is to settle internal contradictions among the people.

The "enemy", it was clear, was the bourgeoisie, and it was particularly important to watch carefully for "spontaneous tendencies" toward capitalism inherent in the petty commodity sector. Since the last half of 1956, Xu said, the most concentrated (jizhong) manifestation of spontaneous capitalist tendencies was the rapid increase in spontaneous industrial enterprises and unlicensed vendors and peddlers. Some of these had already changed in nature from individual to capitalist enterprises. The problem was especially serious in Shanghai where 17 percent of these enterprises had already made that shift--for other large cities the figure was 3 to 12.5 percent. (Xu gave no criteria to distinguish individual from capitalist types of enterprises, but we can assume the major determinant was scale, as reflected in the amount of capital and number of employees.) The problem was not as serious among the individual vendors and peddlers, but nevertheless, some small merchants

(xiao shang fan) had already become big merchants (da shang fan), such as an unlicensed vendor in Harbin who already had 50,000 yuan in capital and employed more than twenty workers. Another dangerous trend was the recent re-emergence of itinerant traders (xingshang) and middlemen (zhongjian ren).

Another manifestation of "spontaneous capitalist tendencies", according to Xu, was an increase in speculation; recently 94,705 speculators in 26 cities had been discovered and "dealt with" (chuli). In addition, many peasants had abandoned farming in favour of commercial activities, and some of the former private entrepreneurs now in joint enterprises--and even some employees of state enterprises and cooperative members--had "turned back down the capitalist road", either opening unlicensed enterprises, or becoming "daytime socialists but nighttime capitalists." Others "hung up the socialist signboard but carried out capitalist operations."

The campaign was already showing results all over the country, said Xu. In Beijing the number of unlicensed hawkers had been reduced from 20,000 to about 1,700 between March and December. But other places had been less successful. In Guangzhou, for example, a campaign to "rectify" spontaneous industrial enterprises had been in action since June. By September, their numbers had increased by 2,184.

Despite the danger of "spontaneous capitalist tendencies," however, Xu emphasized that the individual sector or petty commodity economy also performed useful services that the

national economy would continue to need for a "relatively long period of time." China's large population and "relatively backward" production methods meant that the socialist economy

> ... should and can only concentrate most of its energies in developing modern industrial and agricultural production; it can fill the people's basic needs, but cannot in a short time meet their numerous needs for all the small commodities and various kinds of repairs and services, nor can all petty commodity production and circulation be directly included in the orbit of state planning; thus it is unavoidable that we will have some people, under the leadership of the state, engaging in production and selling, filling in the gaps that can't be satisfied by the socialist economy.

Small-scale industrialists and merchants, according to Xu, were basically to be seen as workers who, because they were also private owners, shared certain viewpoints with capitalists. The preferred method for rectifying them was to use education to reform their political stance and criticize their capitalist tendencies. Unlicensed enterprises should be "used, limited, and reformed," and underground firms should be "brought to the surface" where they could be supervised effectively. These measures would bring the petty commodity economy firmly under state control, where it could be gradually guided down the road to collectivization, as state policy demanded.

In order to accomplish this goal, Xu pointed out, many localities had already begun to carry out registration and cleanup of unregistered firms. After registration, some firms were being allowed to stay in business, while others were being eliminated. Of those that were being permitted to continue, the few that had already become capitalist enterprises were to be supervised carefully and actively subjected to socialist reform.

For those that were still genuine individual enterprises, "we should do a good job of education and management, strictly limit their development toward capitalism, and according to circumstances, gradually bring them into the cooperative orbit." Xu pointed out that the cooperative economy was "an important material base for reforming the individual economy." The handicraft cooperatives should share the burden of the state in educating and reforming the remaining individual handicrafts producers, both through direct means and through their leverage over supplies and marketing.

Xu's address summed up the general position toward petty private enterprise on the eve of the Great Leap: While recognizing its positive contribution to the economy, its incipient capitalist tendencies could not be ignored. They might be controlled, but in the end the wisest (and inevitable) course would be to do away with the sector altogether, once its functions had been fully taken over by the public-ownership economy. Until that time, a careful watch would be kept over it, to keep within acceptable bounds the spontaneous regeneration of capitalism.

The Great Leap Forward, 1958-60

Even the reluctantly tolerant attitude toward petty private enterprise reflected in Xu Dixin's remarks disappeared by mid-1958, as the pace of collectivization was suddenly accelerated immediately prior to and during the Great Leap Forward. Already in September-October 1957, the Third Plenum of

the Eighth Party Congress had endorsed a new industry-led development policy based on intensive labour inputs secured through mass mobilization. Championed by Mao Zedong and Chen Boda, it marked a departure from the gradualist approach adopted by the first session of the Eighth Party Congress one year earlier, which had passed an initial version of the second five-year plan reflecting the views of the more "moderate" group within the central leadership. The Great Leap Forward formally got underway in May 1958 with the second session of the Eighth Party Congress, which passed a revised version of the second five-year plan reflecting the new development strategy.

The Leap was actually based on principles which had already begun to take precedence in the last half of 1957.[48] The major elements which characterized this new approach to development, the "Three Red Banners," included: the Great Leap Forward in industrial production; the new general line for socialist construction; and in agriculture, the people's communes. The new general line "was the simultaneous construction of industry and agriculture, the simultaneous utilization of modern as well as traditional technologies and production processes, and the broadly based construction of industry through the simultaneous erection of large-, middle-, and small-scale factories."[49]

As economic development policy, the Leap basically represented a form of economic dualism. In theory it was to be made on "two legs": a technologically modern, large-scale, national one and a technologically backward, small-scale, local one. This would seem to favour the preservation of the individual

sector. But as a political program the radical nature of the campaign meant that official toleration of any sort of private ownership virtually disappeared. This was especially true in the countryside, which was subjected to the rapid formation of people's communes, but it held for the city as well. According to Solinger,

> ... the small merchants were lumped into the capitalist category with their bigger cousins, and the media highlighted their tendency to engage in exploitation. This stance served to justify an aggressive treatment of them, as the state gathered in all possible resources.[50]

For the individual economy, this was to be the latest wave of the high tide which had begun in 1956. The survivors of the first socialist transformation, who were treated relatively leniently in late 1956-57, again came under attack in 1958, when "once more a large proportion of them were organized, and the remainder came under increased restrictions regarding employees, materials, prices, taxation, etc."[51] The net result was that whereas at the end of 1957 there had been 1.24 million individual handicrafts producers and small peddlers in the country, by 1961 there were only 430,000, of whom 300,000 were handicrafts producers. Only 130,000 small vendors and peddlers remained.[52]

The Leap also encouraged the tendency toward rapid advance to "higher" forms of collective ownership. Thus not only were individual hawkers, peddlers, and small private handicrafts enterprises nearly eliminated, but many businesses which had previously been converted to cooperatives were "upgraded" to joint public-private enterprises or put under state management. Explains one critical Chinese study, "Beginning in 1958, there

was an upgrading and transition of ownership, and the majority of individual handicrafts [producers] and small merchants and peddlers 'reached heaven in a single bound' (yi bu deng tian) and entered state run enterprises; alternatively some went into agricultural production."[53]

Apart from direct absorption of the remaining private firms, and stepped-up control of commerce, one other aspect of the Leap which also had a major impact on the petty commercial and service sector was the formation of urban communes, which occurred in most cities in the summer of 1960. Over one thousand of these entitities, which apparently were little more than street associations renamed, were formed by May 1960, and were said to incorporate about 60 percent of the urban population, with over 42 million members.[54] While themselves short-lived, the urban communes brought handicrafts and petty commerce more firmly into the publicly-owned sector by setting up shops and workshops to provide for local needs as well as to absorb surplus labour (mainly housewives and unemployed youths) into the paid labour force. Although these workshops were mainly supposed to do subcontracting work for industry, according to Vogel, in Guangzhou at least they "in fact performed little work for industry but were mostly service stations to provide the local population with small handicraft goods: workshops for repairing and altering clothes, shoes, and other household necessities."[55] The result of this innovation was to "take the few hundred

thousand handicrafts producers and individual peddlers left in the cities and ... almost instantaneously 'transition' them out of existence ('guodu' diaole)".[56]

Another more indirect way in which the Leap affected the individual economy was in disrupting sources of supply for urban vendors. Rural free markets were basically abolished in August 1957, although they were provisionally reinstated, with many restrictions, about two years later.[57] Licensed private traders could carry on inter-market trade in a restricted range of goods, at restricted prices. This situation did not change until the restoration of private plots and reorganization of the communes in 1961.

On the whole, by disrupting traditional sources of supply in the countryside and among handicrafts producers, and by abolishing both private plots and rural markets, the Leap forced small urban vendors to rely more than ever on the state-run distribution network, which more than ever favoured cooperative and state-run outlets at their expense.

Post-Leap Recovery, 1961-63

The Leap is now generally considered (both inside and outside China) to have been a failure, with disastrous consequences in some parts of the country. Exacerbated by poor weather conditions in some agricultural areas, the rapid wholesale reorganization and restructuring of agricultural production and distribution, diversion of agricultural labour through mass mobilization for construction and industrial

projects, and the side-effects of efforts to meet absurdly high production norms, led to severe shortages of key commodities all over the country, and in some rural areas, widespread famine.[58]

The years of recovery after the Leap convey an atmosphere similar in many ways to the immediate aftermath of the high tide (and also, it will be seen, to the early post-Mao period). 1961-63, like 1956-57, was a period of stock-taking and re-evaluation of the direction of economic development, based on the harsh experience of experiments in extreme radicalism. It was a serious blow to the development strategy associated with Mao, which featured rapid growth based on mass mobilization and rapid collectivization of all economic activity. While Mao continued to stress the valuable lessons learned in the course of the Leap, other leaders such as Liu Shaoqi saw their earlier concerns vindicated and pressed for more gradual reform.

The pullback from some of the more radical economic policies of the Leap began only slightly more than a year after its inception. For example, private household plots for rural commune members made a brief reappearance in 1959, and were fully sanctioned again in late 1960-61. In September 1959, rural free markets were reinstated after an absence of two years. However they continued to operate under strict controls which were not fully lifted until 1961. While the rural communes persisted, there were readjustments made in their size, and management and financial responsibility were decentralized. In the cities, the experiments with urban communes never really got fully underway before they were essentially scrapped.

For the individual economy, this was another period of modest revival, for several reasons. The larger agglomerations of handicrafts workshops and small vendors had been found unworkable. Also the problems of distribution had reached serious proportions, and the flexibility and other attributes of small private operations were again found to be helpful in promoting commodity distribution. The new toleration of private enterprise was also necessitated by massive urban unemployment produced by the wholesale reorganization of industrial plants during the readjustment following the Leap. Urban industrial enterprises were streamlined and many plants were closed down altogether. Many of the workers who now found themselves unemployed, especially young people and older males, were sent to the countryside.[59]

But many who remained in the cities became (or returned to being) private vendors and peddlers or handicrafts producers. As one Chinese source picturesquely puts it, "During the three years of readjustment, there was a 'spitting out of firms' (tu hu), which allowed some people to revert to being vendors and peddlers..."[60] Not all of them reverted back to private ownership. Some returned to cooperative status, especially in handicrafts. But enough did revert to individual ownership to bring the number of individual handicrafts producers back up to about one million in 1962.[61] Commercial reforms also led to the withdrawal, by the last half of 1961, of about half a million small vendors and peddlers from state-run commercial enterprises and SMCs. This was reported to be about one-third of the number

who had been participating in such enterprises, and about half of the over 1 million who had entered these forms since the Great Leap. Most of these also organized cooperative stores or small groups, but as with the handicrafts producers, some reverted to individual ownership. One 1962 survey counted about two million individual vendors and peddlers in the country.[62]

In the early 1960s as before, individual enterprises were controlled administratively through registration, licensing, and supervision by urban district committees, and by their linkage with a particular state-run or collective unit which would be their only legal wholesale supplier. Licenses were also issued to the new businesses which sprang up. They were allowed to survive largely because--as had been recognized before the Great Leap--they provided needed employment and played an important role in filling in gaps between supply and demand which the state-run commercial system, in those difficult years, was simply unable to accommodate.

But their numbers never did regain former levels. One reason for this was a legacy of the urban communes which remained even after the communes themselves had faded away. These were the urban service stations which supplied various everyday services at the neighbourhood level. According to Vogel,

> In effect, they replaced tiny shops and peddlers, the petty capitalists who had performed these tasks prior to socialist transformation. In the fall of 1963 the service stations were formalized [in Canton] with the official establishment of some sixty "Street Labor Service Stations" (jiedao laodong fuwu zhan) ...[63]

The modest revival of urban individual commerce and handicrafts in the early 1960s, as well as the reinstatement in 1960 of the "three freedoms" (private plots, rural markets, and peasant sideline production) in the countryside, created renewed opportunities for private gain, and a corresponding renewal of official concerns about "spontaneous capitalist tendencies." The revival of free market activities undoubtedly encouraged practices that crossed the border between legality and illegality. As always however, that border was hazily defined. Market management bodies were set up to regulate the activities of the resurgent free markets, but in 1961-63 these were dealt with relatively leniently (however reluctant the market-management cadres may have been) as the major concern was to revive production and distribution. In general, however, the ambivalence found toward such activity in the 1950s continued and was perpetuated. According to Vogel, "No matter how much it helped recovery, the concessions to the private economy and to individual freedom created management headaches and leadership disputes which would dominate the political scene for years."[64]

1962 to the Cultural Revolution

Although, as one Chinese source puts it, "During the readjustments of 1961-62, individual industry and commerce emerged into a relatively stable period of development," this moderate revival was short-lived. By the end of 1962 the climate had cooled once again: "... after 1962, with the various retrenchments such as the movement to replace private commerce

(daiti sishang yundong), the cleanup of rural brigade commercial enterprise, and the strict control of market trade in large and medium cities, the number of individual industrial and commercial firms dropped again." A national survey conducted in 1964 found that there were only slightly over a million individual industrial and commercial workers in the country.[65]

In Shanghai, White reports that by 1963 along with the beginning of economic recovery came stricter and more effective control of urban markets:

> The small remaining private free market in Shanghai was conducted largely by means of posters on telephone poles. ... In theory, these personal advertisements were not supposed to be pasted on public property; but until mid-1963, that rule was not enforced. When the government wished to close this market, it needed only to hold an urban beautification campaign.

A general cleanup of markets and centralization of various previously independent activities such as newspaper delivery, cleared most of the remaining private vendors from the city streets, so that "the most widespread private shops in Shanghai by late 1964 were family businesses to sell hot water, for tea and washing." Any new small enterprises which did spring up were likely to be collectives organized by street and neighbourhood committees.[66]

Even participants in the small cooperatives were not immune from charges of capitalist exploitation. In the press during this period they were again lumped together with the bourgeoisie, and many stories appeared of illegal business practices among these small merchants who had already supposedly adopted the socialist road. As Solinger concludes, "Apparently, the

unmerging of the first few years of the decade was short-lived, as cadres began to bask in a heyday for state-run business that was to last for over a decade."[67]

The Cultural Revolution Decade, 1966-76

The struggles which had been going on since the failure of the Great Leap Forward over the general orientation of the post-revolutionary society in China, and over political leadership, found a resolution of sorts with the unleashing of the cultural revolution in 1966. By 1964 the prestige and influence of Mao Zedong and his close associates had fallen precipitously, as various Party leaders and prominent intellectuals sharply criticized the "radical" approach to social development which they represented. They in turn were accused by Mao and those around him of "revisionism". By the summer of 1966, the "radicals" had seized the initiative. In the struggles that followed, economic policy debates were eclipsed by often-violent political struggle and social upheaval. By the time the cultural revolution itself had run its course, the contours of economic policy and development strategy were radically (in the literal sense) different from what they had been before 1966.

Here no attempt will be made to unravel the complexities of the cultural revolution and its aftermath (the decade from the inception of the cultural revolution in 1966 to the death of Mao and arrest of the gang of four in 1976, which Chinese writers now tend to refer to as the cultural revolution decade.) Rather this

section will concentrate on the general features of economic policy which most directly affected the individual sector of the economy, and on political and ideological events and trends which had significant indirect impact.

In terms of ideology, the emphasis was on unceasing class struggle and the transformation of bourgeois and feudal forms of consciousness and material life. Even after the transformation of the economic base, it was argued, the struggle to transform the superstructure must continue. One of the most serious charges made against such figures as Liu Shaoqi was that they had denied the necessity to continue the class struggle even after the socialist transformation of the economy was completed, and had promoted policies which favored the continued existence of the bourgeoisie as a significant force in society. Such policies of course included the maintenance of any form of private commodity exchange or private ownership of the means of production--including free markets, private plots, and individual enterprises.

The most prominent of the top leaders ousted during the cultural revolution was Liu Shaoqi. From mid-1966 until October 1968 when he was finally stripped of his party and government posts, he was referred to publicly only as "China's Khrushchev". His previous repudiation of class struggle, and the "moderate" economic policies he had championed--including the gentle treatment he advocated for the individual economy--were now cited as evidence of his "revisionist" views. A July 1967 article from Guangming Ribao, written by cultural revolutionaries in the

Shanghai Municipal Administration for Industry and Commerce, captures the flavour of the criticisms made against Liu and his followers, which included, quite correctly, the charge that after the "three years of natural calamities" following the Great Leap,

> That general representative of the bourgeoisie within our Party venomously attacked the socialist economy as "not workable because there is only planning but no flexibility and variety." He alleged that "our economy is on the verge of collapsing." He frenziedly advocated the opening of "free markets" and "underground factories," and bellowed that "we must retreat far enough in industry as well as in agriculture--including the fixing of output quotas based on the households and individual economy." He gave utmost publicity to "the need of utilizing the free markets," and wanted to allow "private traders to crawl through any crack of socialism by providing not only free markets to commerce but also underground factories to industry." On top of this, he also baldly stated: "Free markets in the countryside will give rise to some capitalism and bring about some bourgeois elements and some upstarts. Some small-time traders will also become upstarts, but this will do nothing more than to bring about a few members of the bourgeoisie ... Have no fear of the spread of capitalism.[68]

This diatribe also charged that as a result of the reopening of urban free markets in Shanghai in 1962, "speculative activities spread in a big way" as part of the "criminal plot of China's Khrushchev and his Shanghai agent who worked in collusion to break a gap in the socialist market of the city." The implication was that sanctioning any form of private trade--or even recognizing its continued existence--amounted to sabotage of the socialist economy.

There was very little material published on the individual economy itself during the cultural revolution period. It is not surprising that, with the social upheavals of the time, little attention was paid to what was by then such a negligible part of the economy. Given that its very existence was antithetical to

the principles upon which the cultural revolution was based, if it had been at all a significant force in society, it is likely that more direct attacks would have been made upon it. Chapter 6 contains a description of how one individual peddler managed to survive this period. He was not alone, but he hardly represented a numerically significant social grouping. As virtually every post-1978 study points out, during the cultural revolution the individual economy was labeled as the "tail of capitalism" (zibenzhuyi weiba), which was to be "cut off" once and for all. In fact this was done quite effectively: it is generally said that by 1978, there were only 150,000 registered urban individual industrial and commercial enterprises left in the entire country.[69]

However, as before, there was no shortage of opportunities for illicit private transactions, especially with the general dislocation during the first couple of years of the cultural revolution. Says one study published in 1981,

> The operations of some individual firms never stopped. As the masses demonstrated: when the overt is cut off, the covert emerges, when the main road is closed, take to the small lanes. The result of rigid suppression was an increase in unlicensed operations and rampant speculation ...[70]

One estimate is that in Shanghai alone there were 10,000 unlicensed vendors operating throughout the cultural revolution period.[71] White says that in Shanghai, "In late 1967 shortages of fuel, soap and other commodities encouraged a temporary rise of speculative businesses. These operated in railroad stations,

hotels, wharves, restaurants, and reception houses." But this kind of activity diminished as the local authorities began to exert more effective control over the economic apparatus.[72]

Intriguingly, in the early days of the cultural revolution, when students and workers were splitting into "rebel" and "conservative" Red Guard factions, some of the self-employed apparently tended to ally themselves with the former. Along with other marginal workers they seized the opportunity to try and improve on their disadvantaged place in society, in the context of a general attack on the structures of authority. According to Lee's study of the politics of the cultural revolution, these radical workers included temporary and contract workers; participants in the part-study, part-work program; apprentices and unskilled factory workers; workers from small factories; and individual labourers.[73] What they had in common was that, deprived of regular jobs in the large state enterprises, they also lacked the security, relatively high wages, and social benefits--in short, the "iron ricebowl"--that came with such jobs. At the same time, they had minimal channels for regular political participation, and thus escaped formal control by the Party or the unions. Many of them were from "bad" class backgrounds: bourgeois, petty bourgeois, small landlords. In short, says Lee, "what appears to be conclusive is that workers located outside the locus of power formed the radical groups."[74]

Included among them were many of the young educated urbanites who had previously settled in the countryside under the <u>shang shan xia xiang</u> (up to the mountains, down to the villages)

movement which began in 1957. A large number of them returned to the cities when the cultural revolution began in 1966 and resisted the government's directives, beginning the following year, that they go back to the countryside and conduct the cultural revolution there. The most disadvantaged of them tended to join the lower-status workers in the rebel groups.

In the spring of 1967, individual peddlers in Shanghai formed a group called the "Revolutionary Rebel General Headquarters of Individual Labour." In a meeting to air their grievances, they charged that "the individual peddler was the worst off in the new society" and presented a list of four demands to redress their situation: that "the supply plan of materials must be decided democratically, and the state should not interfere with it"; that "commodities in great demand must be given first to privately owned businesses, then to collectively owned businesses, and lastly to state-owned businesses"; that "business tax must be based on self-appraisal, not on collective appraisal or the decision of the tax officials"; and that "taxes must be reduced at times of hardship, and the amounts should be decided by ourselves."[75] Like other radical workers' groups, these individual peddlers were demanding democratic self-management. But apparently more important, they wanted an end to discrimination against individual businesses, and even policies which favoured them over publicly-owned enterprises. Basically what they were asking for, in rhetoric suitable for the times, was that the government not interfere in their business

operations, except to discriminate in their favour in decisions about material supplies. Any group of small entrepreneurs would ask the same.

Demands such as those of the "rebel" individual entrepreneurs and other less privileged workers continued through 1967. They wanted wage raises, efficiency bonuses, and supplementary benefits. The workers' complaints and any attempts by party or enterprise leadership to meet them were attacked by the cultural revolutionaries as "economism"; concessions were condemned as an attempt to buy off the dissatisfied workers and thus deflect them from the true aim of the cultural revolution--eliminating bourgeois ideology.

The battles engendered by "economism" included strikes, demonstrations, and the interruption of rail and road traffic in many of the cities. Public buildings were occupied by squatters. Many of the workers, with the sanction of the local Party leadership (for example in Shanghai) travelled to Beijing to lay their case at the door of the central leadership, which denounced their efforts as an attempt to sabotage the cultural revolution. An official statement charged that proponents of "economism" were trying to "corrupt the revolutionary will of the masses with material interests, to bring about a peaceful evolution and to allow bourgeois ideas to spread unchecked."[76]

At the beginning of 1968 there was a general reassertion of central control over the economy, enforced by the army. A central document titled "Notice from CCP Central Committee, State Council, Central Military Commission, and Central Cultural

Revolution Group on Dealing Further Blows to Counter-Revolutionary Economism and Speculative, Profiteering Activities" was circulated in January.[77] It pointed out that "some speculative, profiteering activities are again in evidence on the market," and in addition to other directives aimed at restoring order and safeguarding production, stated that "market control shall be effectively strengthened," and "unlicensed traders and vendors and unlicensed individual handicrafts producers shall be resolutely repressed." Rural communes, brigades, and teams, as well as their individual members, were forbidden to engage in commerce. In addition, the directive ordered that "Cooperative stores (groups), handicrafts cooperatives (groups), individual traders and vendors, and individual handicrafts producers must strictly observe the policies, laws and decrees of the State, accept the leadership of the State-owned economy, obey the management of industrial-commercial administrative departments, and accept socialist transformation." Increasingly stringent measures were used to control what little individual enterprise remained in the cities. Peddlers and handicrafts producers who were nominally in cooperatives or collectives while in fact operating as individuals, were also brought more firmly into the sphere of the collective economy.

Around the same time, the "up to the mountains, down to the villages" program was resumed and accelerated. This also had a direct impact upon the individual economy in the cities. The individual sector had always expanded in times of high urban unemployment or rural-urban migration, when the state-run sector

of the urban economy was unable to absorb the residual unemployed in addition to new entrants on the job market. Beginning in 1968 another solution was found for the latter group--they were sent to the countryside.

The movement began in 1957, largely as a response to growing labour surplus in the cities, particularly during the retrenchment after the socialist transformation of 1956. The program was interrupted during the Great Leap Forward when surplus labour was mobilized for small-scale labour-intensive enterprises and construction projects. After the Leap the transfer program was resumed, this time on a much larger scale. Of the 1.2 million people resettled in rural areas between 1956 and 1966, well over one million went to the countryside after 1962.[78]

Many of them, as noted above, returned to the cities at the beginning of the cultural revolution, but with the restoration of order in the cities in the summer of 1968 they were sent back to the countryside once again. They were joined by much larger numbers from 1968 to the mid-1970s as the program became institutionalized. According to statistics published in 1976, between 1968 and 1975 a staggering total of 12 million--some 10 percent of the urban population--were resettled. About 5.4 million of these made the move between 1968 and the end of 1970. For some this meant temporary assignments of a few years, but for most, the move was supposed to be permanent.[79]

A combination of ideological, political, and economic factors was behind this massive transfer of urban youth to the rural areas. According to Bernstein, writing in 1977, "The main publicly articulated rationales for the transfer are that it is necessary for ideological reasons and that it will spur rural development."[80] But underlying those rationales, a very important factor in the transfer, and in the year-by-year fluctuations in the numbers transferred, was the level of urban unemployment and the reluctance of authorities to invest in urban job creation for young school-leavers when cheaper alternatives were available.

While millions of educated young people were being sent to the countryside, urban jobs were being filled by temporary recruitment of peasants by urban enterprises, and by increasing the participation rate of married women in the paid workforce. Both were ways of filling jobs with minimal outlay in wages and social benefits: the peasants were paid at lower rates than ordinary workers, were not entitled to benefits, and left their families back home in the village; the married women were usually covered by their husbands' social benefits and did not require additional housing. Bernstein concludes, "Although we do not know what proportion of the 12 million youths has been sent to the countryside because of the availability of cheaper substitutes, it would seem that the transfer has been contributing to China's development not only by helping to solve the problem of unemployment but also by helping to reduce the costs of the urban infrastructure."[81]

In effect, the existence of the transfer program, and the government's persuasive and coercive powers which enabled it to make sure that the young people actually went, meant that after 1968 it was unnecessary to formulate policies to address the long-problem of urban labour absorption. Absence of such an employment policy also meant that there was no need to authorize expansion of the legal individual sector. Given the past record of ambivalence toward that sector, and the ideological antipathy toward it during the cultural revolution period, it is not surprising that this "tail of capitalism" was effectively "cut off" after the mid-1960s.

The neglect of urban development as a policy can also be inferred from the development strategy adopted during the cultural revolution period. An important element of that strategy was to reduce the differences between city and countryside and between workers and peasants. In practice this apparently meant concentrating agricultural and industrial investment (of capital and labour inputs both) in the rural areas at the expense of the cities. In the cities, stress was laid on the expansion of "productive" enterprise, but special emphasis was placed on the development of small-scale industrial enterprises which would serve as suppliers and sub-contractors to larger factories.[82] This was tied to another important aspect of cultural revolution policy: the stress on production rather than consumption, especially in the cities. Commerce and services were hence not considered a high priority for development, and furthermore suffered from being historically linked to the urban

bourgeoisie. It is surely not coincidental that during the cultural revolution the entire leadership of the trade ministry was purged.[83]

But the authorities paid for these policy tendencies later on. Neglect of the urban infrastructure and the absence of measures designed to create employment opportunities for urban surplus labour in the decade following the cultural revolution created acute problems in the late 1970s when the transfer program was abandoned and large numbers of the transferred young people began to return to the cities demanding jobs. Not only were the jobs not there, but the commercial and service sector which could have been expected to employ them, had by that time shrunk to a level where it was barely able to supply more than the minimum requirements of the urban population.

After the upheavals of the late 1960s, the early 70s saw a return to some semblance of "pragmatism" in economic policy, particularly after the fall of Lin Biao in 1971. Under the guidance of Zhou Enlai, economic considerations began to take precedence over the purely political. Previously purged leaders associated with this stance, most notably Deng Xiaoping, were reinstated in 1973. But this trend was short-lived; at the end of 1973 the extreme left was able to push ahead a revival of the cultural revolution, fueled by the virulent campaign against Lin Biao and Confucius (which was in fact a thinly-disguised attack on Zhou Enlai). There were some indications of a waning of this radicalism in 1975 with the introduction of Zhou's "four modernizations" program. But in general economic policy during

this turbulent period was eclipsed by intensified political struggles which ended only with the death of Zhou and Mao and arrest of the "gang of four" in 1976.

One feature of the pragmatism of the early 1970s was a renewed emphasis on the importance of trade, and a recognition of the necessity for private trade, especially in the countryside. New rural policies introduced in early 1971 once again permitted private plots and sideline occupations. However there were problems in enforcing this new approach, largely because of cadres' fears of another swing of the policy pendulum. Their fears were realized in 1974 when a new push to promote the radical Dazhai model in agriculture brought renewed suppression of private plots. In 1975 the spectre of "spontaneous capitalist tendencies" was revived in regard to private plots and sideline occupations, with the media again calling for "a continuous struggle against capitalist tendencies and the spontaneous tendencies of the small-scale producer."[84] Around the same time market management became much more stringent. Such policies firmly cemented the superior position of state-run commerce; by mid-decade over 90 percent of the retail trade volume was handled by state-run units. About 7 percent was handled by collective units, and the miniscule remainder was in private hands.[85]

The renewed radicalism of the mid-1970s prompted considerable popular resistance, with workers again agitating for better wages and working conditions. Work stoppages in various parts of the country had to be put down by the army. This resistance was attributed by the central leadership to

"factionalism," and in particular to the survival of petty bourgeois forms of consciousness and what was called "small holder" mentality. Early in 1975 an ideological campaign was launched which stressed the study of the theory of dictatorship of the proletariat; Lenin's views on the link between petty production and capitalist restoration were used to justify yet another effort to root out the remnants of the "bourgeoisie". The writings of the "Shanghai school" of economic theoreticians led by "gang of four" members Zhang Chunqiao and Yao Wenyuan provided the theoretical basis for this campaign.[86] On 22 February, Renmin Ribao devoted three and a half pages to quotations from Marx, Engels and Lenin in support of this renewed assertion of proletarian dictatorship. Prominent in the accompanying editors' note was the statement:

> Chairman Mao also pointed out: Lenin said, "Small production engenders capitalism and the bourgeoisie continuously, daily, hourly, spontaneously, and on a mass scale." This also occurs among a section of the workers and a section of the Party members. Both within the ranks of the proletariat and among the personnel of state organs there are people who follow the bourgeois style of life.[87]

Amidst the evident instability of this period, in January 1975 a new Constitution, the first since 1954, was passed by the Fourth National People's Congress. It reflected the obsession with class struggle of the previous decade, as well as underlining the inferior status of private ownership and specifically the individual economy. Where the 1954 Constitution recognized and safeguarded the rights of private ownership, the new version stated that "there are two major kinds of ownership of the means of production at the present stage: socialist

ownership by the whole people and socialist collective ownership by the working masses." Individual ownership was no longer recognized as part of China's economic structure, but individual operations were permitted although strictly circumscribed. The relevant clause stated:

> The state permits non-agricultural individual labourers, under unified arrangement by neighbourhood organizations in cities and towns or by production teams in rural people's communes, to engage in individual labour involving no exploitation of others, within the limits permitted by law. At the same time [we] must guide them step by step down the road of socialist collectivization.[88]

The following year came a dramatic series of events which has thrown that future into doubt.

Years of Upheaval, 1976-77

By 1975, despite the radicalism in the central media, an uneasy balance had been struck within the central leadership on the subject of economic policy, as the focus of attention was turned from ideological struggle to economic growth. In a report to the same National People's Congress which passed the new Constitution, Zhou Enlai announced a new policy of rapid development in the areas of agriculture, industry, national defence, and science and technology--the "four modernizations." Zhou's close associate Deng Xiaoping was a prominent influence in the "pragmatic" faction among the top leadership seeking solutions to the critical economic and social problems facing the country. Under their influence came a new stress on "stability, unity, and economic growth."

Around this time, there were signs of mounting unrest among many groups in society, including strikes for wage reforms, a spontaneous resurgence of rural marketing and sideline production at the expense of collective production, and agitation for democratic reforms. In this context, the economic policies associated with Zhou Enlai and Deng Xiaoping, stressing the four modernizations, the use of material incentives, and the import of foreign technology, began to make a dent in all spheres of the economy. But such policies were still strongly opposed by the "left", the faction identified with Jiang Qing and the rest of the "gang of four", whose influence was still strong.

This situation changed radically in 1976, with the deaths of the three top leaders most closely associated with the Chinese Revolution--Zhou Enlai (in January), Zhu De (in July), and Mao Zedong (in September). After Zhou's death, Deng again disappeared from the political scene, attacked as a "capitalist-roader". Hua Guofeng, the minister for public security, was appointed official successor to Zhou, reportedly at the behest of Mao himself. At the end of March and beginning of April popular demonstrations in Tiananmen Square memorialized Zhou and attacked the leftist leaders, including Mao. These and other "counterrevolutionary incidents" were put down violently by the army and public security forces. The severe Tangshan earthquakes in July and November, claiming almost a quarter of a million lives, were another factor in the general climate of instability.

In early October, closely following Mao's death, the "gang of four"--the cultural revolutionary leadership core--were arrested by the army, as were their followers all over the country. Under the shaky leadership of Mao's designated successor Hua Guofeng, and amidst widespread civil unrest,[89] tentative changes in economic and cultural policies began. But the central leadership group--later known as the "whateverist faction" because of their avowed support for "whatever policies Chairman Mao formulated" and "whatever instructions Chairman Mao gave"--was still faithful to Maoism (and in fact depended on his political legacy to legitimize their claim to leadership). Mounting pressure from senior Party leaders to return Deng Xiaoping to a position of power led to his official rehabilitation and reinstatement as vice-chairman of the CCP in July 1977.[90]

The Eleventh Party Congress, held in August 1977, appointed a new Central Committee, purged of cultural revolutionaries, to guide the country into the post-Mao era. The party rectification launched by this Congress, and the nationwide campaign to "criticize the Gang of Four" and their "followers" continued through 1978.[91] The Fifth National People's Congress of February 1978 passed a revised Constitution,[92] and affirmed the central leadership's commitment to press ahead with the four modernizations, with Hua announcing an extremely optimistic--and very expensive--Ten-Year Plan for economic development to begin in 1978. This "new great leap" which was to transform China into a modernized socialist world power by the end of the century was in

fact closer to the Soviet-style policies that preceded the Leap. It also repudiated some important features of the development strategy more recently associated with Mao. It called for very high growth rates in industry and agriculture and a strengthened emphasis on central planning and state initiative, but little actual reform of the planning apparatus or overall economic structure. It also called for massive investment in capital construction, and--an important departure from Maoist policies--large injections of foreign capital and technology, especially for energy resource and infrastructure development.[93]

Economic Conditions and Problems

In the next chapter, discussion of the policy toward the individual economy will be resumed. Not surprisingly, there was little place in the industry-led development strategy embodied in the Ten-Year Plan for the revival of small-scale private economic activity. As with other areas of the economy, the Plan did little to address many of the really pressing economic problems facing the post-Mao leadership in 1976-77. The remainder of this chapter will outline these problems, giving special attention to two aspects which had the most direct influence on the policies toward the individual economy which emerged after 1978: urban unemployment and inadequate supply of goods and services to urban residents.

There has been considerable debate both inside and outside China about exactly how serious the country's economic difficulties were, however, and whether economic problems alone

warranted the dramatic nature of the post-Mao policy reforms.[94] Chinese economists' dire pronouncements about the "ten years of disaster" appear to be almost as much an attempt to discredit anything to do with the "Gang of Four" as to give an accurate analysis of the economic problems facing the post-Mao leadership--indeed many of the problems they described were chronic headaches rather than acute side-effects of so-called "ultra-leftist" policies. The return of Deng Xiaoping and other leading figures identified with the "pragmatic" or more market-oriented economic policies of the mid-1950s and early 1960s inevitably meant a clean break with the Maoist policies many of them had opposed all along, and it was obvious that policies incorporating their longstanding concerns about balanced and steady growth, the uses of foreign trade and investment, technological modernization, diversification of economic forms, the use of market forces to complement central planning and allocation, the use of material incentives to raise productivity, etc., would be given another try.

Also, the necessity to legitimize the new leadership's claim to power compelled them to do something about the material quality of life for both the rural and urban population which, it was widely acknowledged, had improved little--and in some ways had even deteriorated--in the previous twenty years.[95] In the countryside, per capita income had grown only 0.5 percent per annum from 1957 to 1977. Stagnation in agricultural production had created serious problems of supply in the towns and cities, which had forced the introduction of rationing and massive

imports of food grains from abroad. In the cities, the wage scale for workers in the relatively well-paid state sector had been "virtually frozen" from 1963 to 1977, apart from a minor readjustment at the bottom end. With the elimination of bonuses and promotions based on seniority or skills, along with rises in prices, many urban workers had experienced declines in real income.[96] Any increase in family income was more likely due to the increased participation of women in the paid labour force.

Basically, the major economic problems confronting the post-Mao leadership were the following: too-slow growth of agricultural production, especially in relation to population growth; massive unemployment coupled with widespread underemployment and a serious shortage of well educated technically skilled personnel; deteriorating and technologically backward factories and infrastructure; institutional rigidities that were largely the legacy of the Soviet-style bureaucratic structures established in the 1950s; irrationalities caused by longstanding overemphasis on production without due regard for final demand, particularly for consumer goods; and general inefficiency of enterprise operation in every area of the economy.[97]

Two particularly pressing economic problems which demanded immediate attention at the time because of their social and political implications, were massive and growing urban unemployment, and the demonstrated inability of the existing commodity distribution network to provide goods and services for urban residents in adequate quantities, variety, and quality. These two issues are singled out for special attention here

because they are generally cited as compelling reasons for restoring the urban individual economy after 1978. The following sections will outline their general dimensions in the late 1970s.

Urban Unemployment

Despite frequent claims that unemployment had been eliminated in socialist China, the problem of finding jobs for the rapidly-growing non-agricultural population was a pressing issue with profound social and political ramifications. Apart from anything else, high unemployment (and underemployment) rates were a major factor underlying the series of attempts, from the mid-1950s to the late 70s, to "rusticate" large numbers of urban youth from the late 1950s onward.

There is probably no authoritative figure for unemployment in the late 1970s (or indeed for the entire post-1949 period, given that unemployment was officially not supposed to exist). Estimates vary greatly, but there is no doubt that the numbers were high. One foreign press report in 1981 cited an "informed Chinese source" who said the total number of unemployed was 20 million at the beginning of 1979 (rising to 26 million by early 1981).[98] A 1979 article in a Chinese internal-circulation journal put the figure at 25 million,[99] while the Party journal Hongqi (Red Flag) said that the unemployment figure for 1980 was 13 million unemployed, representing about 10 percent of the total urban population.[100] Domes reports that a Shanghai municipal official told him in 1980 that in Shanghai municipality alone

there were 900,000 unemployed young people aged 15 to 30, which would give an unemployment rate of over 30 percent for that age group.[101]

Whatever the exact figure, it can be safely assumed that it was large, that the vast majority of the unemployed were young (under thirty years of age), and that the majority--about 70 percent according to an official of the State Bureau of Labour--of the young people "waiting for employment" were women.[102]

The young unemployed came from several groups. In 1978 the majority were probably drawn from the 17 million educated youth who had been sent to rural areas during the cultural revolution. After the policy was softened in 1974 some of these young people started to trickle back. After 1976 the trickle turned into a flood as those who had been sent out came back to the cities demanding jobs. Because they were in the cities illegally, without urban residency permits, they were not eligible for ration tickets, and thus were dependent on their families for grain, cotton clothing, and other rationed goods.

While the unemployment problem caused by young people returning to the cities was the most vivid, there was also the even more critical (because potentially larger and augmented yearly) problem of young school-leavers. These daiye zhiqing (literally, "waiting-for-work educated youths"), products of the post-Liberation baby boom, were now graduating from middle school and flooding the job market at the rate of 7 million per year, only 8 percent of whom could go on to higher education or vocational or technical schools.[103] Those who didn't go to the

army or the countryside, waited to get a job through the state-run employment allocation system, and many had to wait for years. Again, they constituted a major economic burden for their families, although at least they were issued with ration coupons.

Apparently in 1978 the latter group was still smaller than the former. In 1980 school-leavers still constituted only 27.2 percent of the total number of unemployed in the cities. In the northeastern city of Shenyang, for example, in 1979 there were 330,000 jobless youths, about 75 percent of whom were returnees from the countryside, "more than three times the number of young people ... reaching job age in 1979 and the previous two years." 104

In addition to these two major groups, in any one year there was a considerable backlog of graduates from previous years who had not yet been assigned jobs. Other members of the unemployed were older women who were not part of the regular workforce, but wanted to be, and retirees from units without pension benefits, who were forced to live on the pittance supplied to them by their neighbourhood committees, or on the charity of relatives and friends. Another group were peasants who had been recruited to work in the cities (14 million between 1966 and 1976), and then had lost their jobs in the readjustment period; most of these were to be returned to their home villages. 105

The reasons for the massive unemployment problem were equally complex. It was not until 1979-80 that a systematic attempt began to analyze the problem of urban unemployment and

formulate and implement policies to ameliorate it. Studies published at that time and later present some interesting discussions of the roots to the problem.

As a 1982 analysis succinctly put it, "the grave imbalance between rapid population growth and slow economic development is the root cause of the acute unemployment problem in China."[106] Any solution would have to attack both sides of the equation: reduce population growth while accelerating economic development (taking care to concentrate that development in the more labour-absorptive sectors). In fact these both became key features of post-1978 economic policies.

The unemployment problem was blamed not only on the slow rate of economic growth, but also on the "irrational" economic structure which resulted from past economic policies stressing the development of heavy industry at the expense of other non-agricultural sectors. It was argued that whereas a one million yuan investment in fixed assets in light industry can absorb 257 workers, the equivalent investment in heavy industry only employs 94 workers.[107] Investment in labour-absorptive "non-material production" (commerce and services) was even skimpier. An investment of one million yuan in fixed assets in these sectors, creates 800 to 1000 jobs. (Actually given that this sector is defined to include such capital-intensive elements as public utilities, if these are excluded, the labour absorption figure would be much higher.)

It was also argued that because of the overly hasty socialization of handicrafts and commerce over the previous two decades, the collective sector had received inadequate protection from competition with or absorption by the state-run sector. This was even more true for the individual sector, as we have seen. Since it was cheaper to create jobs in the collective sector, this tendency also affected employment. (The differential is largely because the more labour-absorptive activities, such as light industry and services, tend to be concentrated in the collective rather than state-owned sector.) Obviously the investment needed to create a job in the individual sector was much lower, and involved essentially no output by the state.

The fourth culprit was the overly-centralized labour allocation system which had been in force since the mid-1960s. Work units were not allowed to recruit their own workers, and workers were not allowed to seek (or create) their own jobs. Rather all placements were made through the government labour bureaus, a system which was renowned for its inefficiency and for increasing the unemployment problem by producing a large backlog of young people waiting for job assignments.

By 1978 all these factors had combined to produce an urban unemployment problem with serious implications for the stability of the new regime.

Decline in Urban Commerce and Services

Ironically, however, despite the vast amount of surplus labour in the cities, many potential jobs were simply being left

undone.[108] Thus the urban unemployment problem was linked with what by 1978 had become another major cause of disaffection amongst urban residents: the steady decline since the mid-1950s in the number of retail and service outlets, and the concomitant decline in the supply and quality of goods and services.

Any observant visitor to China in the late 1970s could quickly see the justice of the complaint that it was "hard to eat, hard to shop, hard to get things repaired, hard to find a place to live ..." Some of the reasons for this problem have been discussed above. Patterns of investment over the past three decades had favored heavy industry over light (thus affecting the supply of consumer goods) and productive over non-productive activities (thus affecting the distribution and quality of goods and especially services.) The shrinkage of the small-scale collective and individual sectors since the late 1950s had also considerably reduced the number of enterprises producing and marketing consumer goods and services. What was left of these functions was concentrated more and more in the state-owned sector which for various reasons neglected or actively discriminated against commerce and services. The repeated elimination of rural and urban markets during the more radical phases was another contributing factor.

Some of the socio-cultural reasons for this situation--the low status traditionally accorded to commerce and services in China, and in particular toward small operators, as well as the traditional disdain for such "non-productive" activities within Marxism--will be discussed in Chapter 5 below. These combined

with (and contributed to) the systematic neglect of commerce and services since 1949, and were exacerbated by the radical policies of the cultural revolution decade, making life in the cities often very difficult indeed.

The voluminous literature on reform of the commercial network and commodity circulation system which appeared in the Chinese press in the early 1980s contain scattered figures to indicate the seriousness of the problem. A 1980 article in Guangming Ribao citing Ministry of Commerce figures, said that in 1957 there had been one million retail, catering, and service outlets serving consumers in China's cities and industrial or mining complexes. By 1978 this number had dropped to 180,000. During the same period, the number of people working in such outlets decreased from 3.57 percent of China's urban population to 2.34 percent, dropping to as low as 2 percent in some cities. The article gave some graphic examples to underline the enormity of the problem:

> The insufficiency of the commercial and service network causes the most extreme inconvenience in people's lives. To obtain the "seven things" (fuel, grain, oil, salt, soya sauce, vinegar, vegetables) you need every day, you have to be constantly pounding the streets and standing in line; this is nearly an everyday occurrence. According to past investigations, Anshan has only one food store per 5,000 people; in some areas you have to walk three or four blocks to buy anything. It's even worse in the service trades: in Baoding there is one seat in a barbershop per 1,400 urban residents; if only half of them get their hair cut in a barbershop, that means each person can go once every two months. For Shenyang residents to go to the public baths, the male comrades get a turn every two months, and female comrades every six months. In a lot of newly-opened industrial and mining complexes, because life is arranged so poorly, the workers and staff can't get settled, a lot of them wait a long time to send for their families, some try every means they can to return to the city. This business of the masses of workers and staff having to waste a lot of time

> and energy every day just taking care of the basics of daily life, has already become a serious problem in contemporary social and economic life.[109]

Another source stated that between 1957 and 1978 the number of urban retail outlets decreased nationwide by 51 percent, but that in some places the decrease was as high as 86 percent.[110] Even by 1980, when the situation had already improved somewhat, the retail network density was reportedly 2.1 outlets per 1000 people, which compared most unfavorably with corresponding figures of 8.5 for the United States, 6.2 for England, and 14.4 for Japan. It also compared unfavorably with the situation in China in the early 1950s, when Shanghai for example had 7.5 shops per 1000 residents.[111] In Beijing, where the resident population almost tripled between 1950 and 1980, during the same period the number of commercial and retail outlets dropped from 70,000 to less than 10,000.[112]

Figures for the number of commercial workers reinforce the impression of widespread shortage. One study reports that in 1951 there were 9 million commercial workers in the country. The number had dropped to 6.4 million in 1958, and 2.9 million in 1978.[113] In 1950, according to another source, 1.5 percent of China's total population worked in commerce, catering, and services. In 1957 these trades employed 1.3 percent of the total, and in 1978 about 1 percent.[114]

Whyte and Parish cite some detailed figures for Beijing, where in 1949 a total of over 10,000 restaurants (including small stalls) served a population of less than 2 million. By the late 1970s the population had grown to 5 million (not including a very

large number of visitors and tourists), but the number of eating-places had dropped to a mere 656. The number of retail shops in the city fell from 70,000 in the early 1950s to 10,000 in 1980. The number of bicycle repair stands shrank from 780 in 1957 to 169 in 1973, and probably even lower by 1978.[115]

This reduction in the number of outlets for commerce and services was partly due to progressive amalgamation, which decreased the number of outlets but increased their size. In addition, it was partly compensated by the opening of small shops (xiao mai bu) within schools, factories and other large work units. The reduction in eating places was also partly offset by the presence of canteens in work units. But these did little to ameliorate a problem that was plain to all, an enormous decrease in the absolute numbers of commercial and service outlets in the cities to serve an urban population which had increased substantially between 1949 and 1978.[116] The inconvenience, frustration, and fatigue created by this situation were the source of many complaints which surfaced in the press in 1979-80.

Aside from its obvious impact on the convenience and quality of life for urban residents, of course, another major result of this decline in commerce and services was the gradual erosion of an important potential source of employment for surplus labour in the cities.

Conclusion

The general economic situation described above, and in particular the problems of urban unemployment and the critical

shortage of urban goods and services, by 1978 cried out for solutions. One obvious one was to simply allow people to create employment for themselves, especially in commerce, catering, and service trades. As this chapter has demonstrated, however, this approach had been tried more than once in the past, and then quickly abandoned. This was largely because, after the mid-1950s, it was not part of the basic thinking underlying economic policy, and in fact was contrary to China's long-term development strategy. Without a very basic change in policy orientation, there was no way that the development of the individual economy could be used as part of a policy package to ameliorate these problems.

Of course after 1978, such a fundamental change did occur. The following chapter relates how this came about, and describes in detail the process by which the individual economy was incorporated into the new development strategy.

Notes

1. "Zhongguo Xian Jieduan Geti Jingji Yanjiu" (Research on China's Individual Economy at the Present Stage), Jingji Wenti Tansuo (Exploration of Economic Problems), supplement no. 1 (March 1982): 9 (hereafter cited as JWT). This figure of 7 million appears in several Chinese sources.

2. Kuan Ta-tung, The Socialist Transformation of Capitalist Industry and Commerce in China (Beijing: Foreign Languages Press, 1960), p. 7.

3. Ibid., p. 8.

4. Quoted in Chengzhen Feinongye Geti Jingji Fagui Xuanbian (Selected Laws and Regulations on Urban Non-Agricultural Individual Economy) (Beijing: Gongren Chubanshe, 1982), p. 3 (hereafter cited as Fagui Xuanbian).

5. Lynn T. White III, "Low Power: Small Enterprises in Shanghai 1949-67," The China Quarterly, no. 73 (March 1978), p. 49. White calls these "soft agencies" whose functions were to arbitrate minor disputes, hold political study sessions, and report black market activities to Party cadres--but not the police.

6. Ezra Vogel, Canton under Communism: Programs and Politics in a Provincial Capital, 1949-1968 (Cambridge: Harvard University Press, 1969), p. 74.

7. Ibid.

8. Liang Zhuanyun, Lu Yongyang, and Shi Ping, "Luelun Woguo Geti Gongshanghu de Fazhan Guocheng" (Brief Account of the Development Process of China's Individual Industrial and Commercial Enterprises), in Fazhan Chengzhen Geti Jingji (Develop the Urban Individual Economy) (Beijing: Gongshang Chubanshe, 1981), p. 62 (hereafter cited as Fazhan). See also Liu Ta-chung and Yeh Kung-Chia, The Economy of the Chinese Mainland: National Income and Economic Development 1933-1959 (Princeton: Princeton University Press, 1965), pp. 196-203. They estimate that in 1952 there were 2.76 million urban peddlers and 4.24 rural peddlers, for a national total of 7 million, plus about 7 million individual handicrafts workers. In addition, they put the number of workers in "restaurants" (including food stalls) and "personal services" at about 1.5 million and 3.61 million respectively; it can be assumed that the majority should also be be considered part of the individual economy.

9. He Jianzhang and Zhang Wenmin, "The System of Ownership: A Tendency Toward Multiplicity", in China's Economic Reforms, ed. Lin Wei and Arnold Chao (Philadelphia: University of Pennsylvania Press, 1982), p. 194.

10. JWT, p. 9.

11. First Five-Year Plan for Development of the National Economy of the People's Republic of China in 1953-1957 (Beijing: Foreign Languages Press, 1956), pp. 110-111. Although the plan period officially began in January 1953, its contents were not made public until July 1955--immediately before the launching of the socialist transformation.

12. Calculated on the basis of figures in ibid., pp. 111-112.

13. Ibid., pp. 167-9.

14. Liang et al., p. 63.

15. Ibid., p. 62; see also Cai Beihua, "Lun Geti Jingji" (On Individual Economy), Shehui Kexue (Social Science), no. 6 (1980), pp. 12-16, who says that in Shanghai there were 150,000 individual vendors in 1950, increasing to 220,000 by 1956.

16. Vogel, p. 172.

17. See White, p. 50.

18. Vogel, p. 81.

19. Willy Kraus, Economic Development and Social Change in the People's Republic of China (New York: Springer-Verlag, 1982), p. 78. Kraus dates this change to late 1953.

20. See Dorothy J. Solinger, Chinese Business Under Socialism: The Politics of Domestic Commerce 1949-1980 (Berkeley: University of California Press, 1984), pp. 320-1 for some of the various forms this new arrangement took.

21. Roderick MacFarquhar, The Origins of the Cultural Revolution. Vol. 1: Contradictions Among the People 1956-1957 (New York: Columbia University Press, 1974), p. 23. According to MacFarquhar, " ... Mao seems to have been overtaken by events--or rather, in this case, by the Peking municipal party organization."

22. Ibid.

23. Ibid., pp. 23-24. See Vogel, pp. 125-177 for a detailed account of this process in Guangzhou.

24. "Decisions on Socialist Transformation of Private Industry, Commerce, and Handicrafts", translated in Survey of China Mainland Press (hereafter, SCMP), no. 1232 (21 February 1956), pp. 16-18.

25. Liang, et al., p. 64.

26. See Vogel, pp. 171-2.

27. Ibid. He adds that for the roughly 92,000 people involved in handicrafts, "In about six weeks during June and the first part of July 1955 the number of these workers in cooperatives increased from less than 11,000 to over 15,000. But in the remaining six months of the year, ... , only 5,000 more workers were brought into cooperatives. By early January 1956, some 20,200 handicrafts workers belonged to some 227 producers' cooperatives ... and to some 392 producer-retailer cooperatives and small groups." This was a little over 20% of the total.

28. Jiang Yinguang, "Zenyang Kande Chengzhen Geti Suoyouzhi Jingji de Xingzhi?" (How to Understand the Nature of the Urban Individual Ownership Economy?), in Fazhan, p. 50.

29. Solinger, CBUS, p. 309

30. See Solinger, CBUS, pp. 191 and 309. Her figures come from Zhongguo Shehui Kexue Yuan, Jingji Yanjiusuo (Chinese Academy of Social Sciences, Economic Research Institute), Zhongguo Zibenzhuyi Gongshangye de Shehuizhuyi Gaizao (The Socialist Transformation of China's Capitalist Industry and Commerce) (Beijing: Renmin Chubanshe, 1978), p. 229.

31. JWT, p. 9.

32. Quoted in Vogel, pp. 172-3. White (p. 60) reports a similar phenomenon in Shanghai.

33. For complaints voiced by hawkers in Shanghai, see White, p. 60. He concludes that "What these people wanted, more than anything else, was sympathetic attention from the bureaucracy. They were well aware that as good proletarians under communism they should benefit from the government. They complained because they were not receiving services."

34. Liu Shaoqi, "The Political Report of the Central Committee of the Communist Party of China to the Eighth National Congress of the Party," in Eighth National Congress of the Communist Party of China: Documents (Beijing: Foreign Languages Press, 1981), p. 16.

35. Ibid., p. 25.

36. Ibid.

37. Ibid., p. 35. For a discussion of the attacks on Liu that this statement provoked during the cultural revolution, see MacFarquhar, Vol. 1, pp. 160-164.

38. Liu, pp. 35-6.

39. Translated in Current Background, no. 416 (9 October 1956), pp. 17-25.

40. According to Vogel (p. 186), "Before 1955 when goods were unavailable and prices were high, people blamed private business. After socialist transformation, as goods became increasingly scarce and shopping inconvenient, they blamed the government. When farmers and former businessmen lost their independence, their annoyances were understandably directed to inefficiencies, bureaucratic red tape, and tight party control."

41. See Christopher Howe, Employment and Economic Growth in Urban China 1949-1957 (Cambridge: Cambridge University Press, 1971), p. 27: "... they exhibited strong tendencies to independent action which the authorities described as 'commercialism' and 'capitalism'."

42. See Howe, p. 27, note 3; and Xu Dixin's speech at the 1957 National Conference of Handicrafts Co-operatives, published in Da Gong Bao (Beijing), 24 December 1957. (Xu's speech is discussed in more detail below.)

43. Howe, p. 28; on spontaneous enterprises in Shanghai, see White, pp. 55-59.

44. This speech has an interesting history. It was delivered in February in its original form but at that time was only circulated among Party members. According to Vogel (p. 201), the original speech had been relatively mild: "Mao played down the severity of contradictions ... There was nothing unusual in the fact that his earlier speech was made available only to party members. But once the anti-rightist campaign began, there was a danger that Mao's unpublished speech would be used as a rallying point for those who had spoken out against the party. A revised version of the speech was quickly prepared for publication ... The tone of this later version was entirely different ... With the publication of the later version, there was no danger that the speech would stand in the way of the counterattack [against those who had criticized the party during the Hundred Flowers]." According to MacFarquhar (V. 1, pp. 266-9), the text of the original speech found its way to Warsaw, where it was leaked to the New York Times which on June 13 published a summary with extended quotations. This may also have contributed to the decision to publish the "official" version, in a revised form more suited to the new political climate of mid-1957. Richard Kraus maintains that the published version represents a genuine change in Mao's thinking; that while in February he had substantially agreed with Liu's view that class struggle was

resolved in China and that socialism had won out, by June the results of the Hundred Flowers had convinced him otherwise. See Richard Curt Kraus, Class Conflict in Chinese Socialism (New York: Columbia University Press, 1981), pp. 45-49.

45. The six criteria were that criticisms must be beneficial to: national unity; socialist transformation and socialist construction; the consolidation of the people's democratic dictatorship; the democratic centralist system; consolidation of the leadership of the Party; and the international unity of socialism. See MacFarquhar, V. 1, pp. 261-269 for the evolution of the critera and issues surrounding publication of the speech.

46. Quoted in ibid., p 268.

47. See Da Gong Bao (Beijing), 24 December 1957.

48. According to Vogel (p. 221), "What changed from the fall of 1957 to the fall of 1958 was the grandiosity of goals and the single-minded concentration on production."

49. Kraus, Economic Development, p. 109.

50. Solinger, CBUS, p. 197.

51. Jiang, in Fazhan, p. 50.

52. JWT, p. 11.

53. Liang Zhuanyun, et al., in Fazhan, p. 64. According to Solinger (CBUS, p. 198), "In the Leap, then, all private enterprise was eliminated, new mergers occurred, and the petty holdings of the smallest traders were confiscated, as policing policies capitalized on the fact that all merchants could be categorized as members of the bourgeoisie."

54. On urban communes, see Donninthorne, pp. 226-231

55. Vogel, p. 268. He notes (p. 267) that in Guangzhou, "At their peak there were some 3,800 commune workshops with some 61,000 workers, but many of these had already been working in the handicraft workshops before."

56. JWT, p. 11.

57. See Vogel, p. 232, and Kraus, Economic Development, p. 135. According to Kraus: "From a political and organizational viewpoint they were still considered undesirable phenomena; however, since the state and cooperative trading organs had proved incapable of supplying the demands of the populace, their presence was necessary. It was discovered that rural markets would contribute to agricultural production, stimulate sideline occupations, enliven artisan production, promote local goods

transportation, and allow a measure of price policy. Commune members were enjoined to refrain from practising 'bad habits' ..."

58. Although for years the Chinese government and many Western observers blamed it on the weather, it appears that the new campaign itself was the biggest culprit. According to MacFarquhar, in The Origins of the Cultural Revolution, Vol. 2: The Great Leap Forward 1958-60 (New York: Columbia University Press, 1983), p. 330: "20,000 people starved to death ... Anywhere from 16.4 to 29.5 million extra people died during the leap, because of the leap."

59. See Andrew Walder, "The Remaking of the Chinese Working Class, 1949-1981," Modern China 10 (January 1984), p. 200.

60. Jiang, in Fazhan, p. 50.

61. Liang, et al.,in Fazhan, p. 64.

62. Ibid., p. 65.

63. Vogel, p. 291.

64. Ibid., p. 292.

65. Liang, et al., p. 65.

66. White, pp. 72-3.

67. Solinger, CBUS, p. 200.

68. The Revolutionary Rebel Detachment of the Shanghai Municipal Administration Bureau of Industry and Commerce, "The Defender of Capitalist Economy -- Thoroughly Taking Stock of China's Khrushchev's Capitulationism in the Socialist Transformation of Capitalist Industry and Commerce," Guangming Ribao, 21 July 1967, translated in Current Background, no. 836, (25 September 1967), pp. 836-7.

69. JWT, p. 12. This source gives some figures for individual cities: in Chengdu there were 1,200 self-employed people in 1973; in Xian there were 300 in 1975; in Beijing there were 2,327 individual businesses in 1965 and only 259 by 1978.

70. Liang, et al., in Fazhan, p. 66. An informant in Hong Kong told me that as a child in Beijing during the cultural revolution, he was treated by a private practitioner of traditional medicine, who accepted as payment, for a course of treatment over several weeks, forty jin of grain coupons--equivalent to two or three months' rations--and 5 yuan in cash. See Martin King Whyte and William L. Parish, Urban Life in

Contemporary China (Chicago: University of Chicago Press, 1984), p. 30 for other examples of private enterprise during the cultural revolution period.

71. Cai Beihua, "Lun Geti Jingji" (On Individual Economy), Shehui Kexue (Social Science), no. 6 (1980), p. 12.

72. White, p. 75.

73. Hong Yung Lee, The Politics of the Chinese Cultural Revolution: A Case Study (Berkeley: University of California Press, 1978), p. 130.

74. Ibid., p. 136; see also Vogel, pp. 342-63, and Thomas P. Bernstein, Up to the Mountains and Down to the Villages: The Transfer of Youth from Urban to Rural China (New Haven: Yale University Press, 1977), pp. 271-273. According to Bernstein (p. 272): "These rebel groups opposed the institutional power of the party, and they wanted a substantial redistribution of political power ... Their conservative opponents, in contrast, had little interest in fundamental change. [They] were more interested in struggling against bourgeois forces in the educational system and in society at large, rather than against the party institutions."

75. Lee, pp. 133-4; citing a report in the Shanghai newspaper Jiefang Ribao (Liberation Daily), 7 March 1967.

76. Quoted in Kraus, Economic Development, p. 193.

77. Translated in SCMP, no. 4129 (1 March 1968), pp. 1-4.

78. See Bernstein, pp. 2-3.

79. Ibid., pp. 2-3, 35, 39. Bernstein cites "Twelve Million School Graduates Settle in the Countryside," Peking Review, no. 2 (9 January 1976), pp. 11-13.

80. Bernstein, ibid., p. 33.

81. Ibid., p. 42.

82. See Kraus, Economic Development, pp. 179-183.

83. Ibid., p. 200.

84. See Kraus, Economic Development, pp. 241-2, 249.

85. Chang Chun-chiao, "On Exercising All-Round Dictatorship over the Bourgeoisie," Peking Review, no. 14 (4 April 1975), p. 6.

86. See for example Chang Chun-chiao, "On Exercising all-round Dictatorship over the Bourgeoisie," Peking Review, no. 14 (4 April 1975), pp. 5-11.

87. See Peking Review, no. 9 (28 February 1975), p. 5.

88. Quoted in Chengzhen Feinongye Geti Jingji Fagui Xuanbian, p. 4. For an English translation, see Peking Review, no. 3 (24 January 1975), p. 14.

89. For details, see Jurgen Domes, The Government and Politics of the PRC: A Time of Transition (Boulder: Westview Press, 1985), pp. 140-142.

90. The pressure came from the public as well as party leaders; Domes (p. 146) says that "... in late February and early March 1977, the trees along the major thoroughfares in Peking were time and again lined with small bottles"--the Chinese term for "small bottle" (xiao ping) being homophonous with Deng's personal name.

91. For an interpretation of this campaign, see Bill Brugger, China: Radicalism to Revisionism 1962-1979 (London: Croom Helm, 1981), pp. 203-206.

92. Discussed in detail in Chapter 3 below.

93. For a detailed analysis, see Jan S. Prybyla, "Changes in the Cinese Economy: An Interpretation," Asian Survey 19 (May 1979), especially pp. 418-432; and Domes, pp. 151-4. Prybyla (p. 433-5) describes the new strategy as "a return to the status quo ante; to the marginally modified Soviet-type system of the early to mid-1960s," but argues prophetically that because of remaining "obstacles to modernization" and rigidities in the system, "... it is not inconceivable that the reforms may yet go beyond the present 'Soviet' system, that they may venture into forbidden areas and explore bolder combinations of administration and market, command and allocative spontaneity."

94. For a balanced discussion of this issue, see Elizabeth Perry and Christine Wong, The Political Economy of Reform in Post-Mao China (Cambridge: The Council on East Asian Studies, Harvard University Press, 1985), pp. 5-10.

95. A decision passed by the Third Plenum of the Eleventh Central Committee in December 1978 stated that "a hundred and several tens of millions of people have not enough to eat." (Cited in Domes, p. 213.)

96. See Perry and Wong, pp. 2-4.

97. See K. C. Yeh, "Macroeconomic Changes in the Chinese Economy During the Readjustment," The China Quarterly, no. 100 (December 1984), pp. 691-6.

98. See Agence France Presse, "Country's Unemployed Reportedly at 26 Million," in Foreign Broadcast Information Service: Daily Report (hereafter cited as FBIS), 13 February 1981, p. L5.

99. Cited in John Philip Emerson, "Urban School-leavers and Unemployment in China," The China Quarterly, no. 93 (March 1983), p. 1.

100. Guangming Ribao, 16 August 1981, cited in Gordon White, "Urban Employment and Labour Allocation Policies in Post-Mao China," World Development 10 (August 1982), p. 614.

101. Domes, p. 224.

102. See Beijing Xinhua Radio, 15 September 1980, "Women's Journal Calls for Attention to Women's Employment," translated in FBIS, 17 September 1980, p. L17.

103. See Feng Lanrui and Zhao Lukuan, "Urban Unemployment in China," Social Sciences in China 3 (March 1982), p. 131.

104. Ibid., p. 132.

105. Ibid., p. 126. The numbers of urban unemployed were later augmented by yet another group--demobilized soldiers pushed out of the military by reorganization. A clandestine radio station in March 1982 reported that 500 young unemployed people staged a sit-down demonstration in front of one of the district government offices to "strongly protest the government decision to give priority to helping find jobs for the 25,000 demobilized and retired armymen who had arrived in Shanghai early this year." See FBIS China Report: Economic Affairs (hereafter, CEA), 21 April 1982, p. 140.

106. Feng and Zhao, p. 128. The following discussion is based largely on this article, which summarizes most of the arguments about the causes of unemployment put forward by scholars in the early 1980s. For other examples see Feng Lanrui, "On Factors Afffecting China's Employment," People's Daily, 16 November 1981, translated in Summary of World Broadcasts (hereafter, SWB), 24 November 1981, pp. BII/4-8; Zhuang Qidong and Sun Keliang, "Lun Woguo Jiejue Chengzhen Jiuye Wenti de Lishi Jingyan" (On Our Country's Historical Experience in Solving the Urban Employment Problem), Zhongguo Jingji Wenti, no. 2 (1982), pp. 10-15, 58; Liu Xiangjun, "Guanyu Gaige Laodong Jiuye Zhidu de Shexiang" (A Tentative Plan Regarding the Reform of the Labour Employment System), Renkou Yanjiu (Population Research), no. 5 (1982), pp. 8-12.

107. Feng and Zhao, p. 129. They reported that in the past thirty-one years the state had invested 347.2 billion yuan in heavy industry and only 39.4 billion in light industry, which also has implications for the next problem to be discussed, the shortage of consumer goods.

108. A situation which a 1979 Renmin Ribao editorial summed up as "a lot of things with no-one doing them, a lot of people with nothing to do." See "Fazhan Shangye he Fuwuye" (Develop Commerce and Services), Renmin Ribao, 14 June 1979.

109. Qi Tinglian, "Zhongshi Shangye Fuwu Wangdian de Jianshe" (Pay Attention to Building the Commercial and Service Network), Guangming Ribao, 9 February 1980.

110. Dong Jiuchang and Wang Zhengxiao, "Zai Tiaozhengzhong Fahui Geti Jingji de Zuoyong" (Give Full Play to the Role of Individual Economy in the Readjustment), in Fazhan, p. 57.

111. Jingji Ribao, 13 April 1983; translated in CEA, 17 June 1983, p. 52.

112. "Beijing Municipality Develops Commercial Services", Beijing Xinhua Domestic Service, 18 May 1980, translated in FBIS, 20 May 1980, pp. R1-2.

113. These figures, from official Chinese sources, are cited in Solinger, CBUS, p. 324.

114. Yu Xinyan, "Qing Shang Sixiang Qiantan" (A Superficial Exploration of the Belittling of Commerce), Hubei Caijing Xueyuan Xuebao, no. 3 (1981), reprinted in Maoyi Jingji (Trade Economics), no. 11 (1981), p. 18.

115. See Whyte and Parish, pp. 98-9.

116. As noted in Chapter 1 above, there is much debate about the size and growth rate of China's urban population, caused by an acute shortage of reliable and consistent statistics, especially between 1958 and 1978. Whyte and Parish (pp. 16-20) have concluded that between 1953 and "the 1970s" the population of China's 21 cities of one million population grew by 51%, and that of the 22 cities of one-half million population by 96%--relatively low rates compared to other developing countries, but still enormous in absolute terms. Between 1964 and 1982 the urban population grew at a rate of 2.7% per annum.

CHAPTER III

CENTRAL POLICY TOWARD THE INDIVIDUAL ECONOMY, 1978-84

Introduction

The previous chapter outlined the fluctuations in the treatment of the individual economy between 1949 and 1976, and the changes which occurred in the two turbulent years after the death of Mao Zedong, focusing on two problem areas in the urban economy which were to be the most crucial in influencing policy toward the individual economy in the post-Mao era. This chapter will carry on the narrative with an account of the development of central policy toward the individual economy during the period which can be conveniently bracketed by the Third Plenum of the Eleventh Central Committee of the CCP (December 1978) and the Third Plenum of the Twelfth Central Committee (October 1984).

First, however, it is necessary to describe the important political and ideological changes which occurred in 1978 and which paved the way for the radical reorientation in policy that was signified by the Third Plenum of the Eleventh Central Committee.

1978: Year of Transition

1978 was the crucial year for the transition to post-Mao economic policies in China. During the Fifth National People's Congress (NPC) in February-March, Hua Guofeng announced the new

Ten-Year Plan discussed in the previous chapter. The plan contained no clues as to the possible future role of small-scale private activity.

Another product of the Fifth NPC which had more direct bearing on the status of the individual economy was the revision of China's Constitution. Although it reversed some of the cultural revolution policies reflected in the 1975 Constitution promulgated at the tail-end of the cultural revolution, and was considerably more complex with sixty clauses instead of the former thirty, like the Ten-Year Plan itself it still contained many holdovers from the Maoist era.[1]

The clause concerning the structure of ownership in general, and the individual economy in particular, reproduced almost word for word the relevant clause from the previous Constitution, repeated here for comparison:

> The state permits non-agricultural individual labourers, under unified arrangement by neighbourhood organizations in cities and towns or by production teams in rural people's communes, to engage in individual labour involving no exploitation of others, within the limits permitted by law. At the same time [we] must guide them step by step down the road of socialist collectivization.[2]

The 1978 version also recognized only two forms of ownership: "socialist ownership by the whole people and socialist collective ownership by the working masses." Individual labour was still permitted, with minor changes. The relevant clause read as follows:

> The state permits non-agricultural individual labourers, under unified arrangement and management by basic-level organizations in cities and towns or rural areas, to engage in individual labour involving no exploitation of others,

> within the limits permitted by law. At the same time, they will be guided step by step down the road of socialist collectivization.[3]

There were only two points of divergence from the 1975 document. First, where in the earlier version urban individual operators were made responsible to the neighbourhood organizations (jiedao zuzhi) and rural ones to the production brigades, in the new Constitution they were placed under the jurisdiction of "basic-level organizations"--a more general term for the same thing. This change probably reflects the reshuffling of basic-level administrative divisions going on at the time. The other change was that whereas the earlier version said that individual labourers "must" be guided toward collectivization, the phrasing of the later version was somewhat less insistent.

Although the 1978 Constitution marked no major change in the official status of the individual economy (it was still not recognized as a separate form of ownership within the overall ownership structure of the economy), many Chinese studies nevertheless point to it as a significant event, if only because it was an overt re-endorsement of individual operations; a clear signal that, whatever was to come, individual enterprises were still to be permitted.

Major differences between the approaches of Deng and Hua continued to emerge through 1978. In the ideological sphere, the debate centred around Deng's slogan, "practice is the sole criterion of truth." In practice this was a call to abandon blind adherence to "whatever" Mao said or did, and institute

reforms based on analysis of actual conditions. Deng's famous line that it didn't matter whether a cat was black or white, as long as it catches mice, gained wide currency.[4]

Deng's "practice" criterion was debated in the media and in party organizations at every level. It was also taken to heart by young intellectuals, especially the "sent down" youth now agitating to return to the cities (or actually returning illegally). In the fall of 1978 this erupted into the short-lived democracy movement. It was bolstered by the ruling of the central leadership that the Tiananmen Incident of April 1976 had been a "revolutionary" movement rather than the "counterrevolutionary incident" it was called at the time. Wall posters and underground journals appeared all over the country, criticizing the current leadership and calling for "the fifth modernization"--democratization.

Around the same time, demonstrations were held in Beijing and other major cities to push for concrete changes. Poor peasants flocked to Beijing to agitate for rural reforms to raise the standard of living in the countryside. "Sent down" youth returned to their homes in the city for the Spring Festival in February 1979 and refused to go back to the countryside. They demanded that they be allowed to stay legally, be issued ration coupons, and given jobs. In Shanghai they staged demonstrations and occupied the train station, stopping the trains from running. By this time however, the democracy movement had begun to be

repressed, its leaders arrested, wall-posters banned and unofficial magazines shut down--reportedly at the order of Deng himself.

As the year progressed, conflicts between Hua's "whatever-erist" faction and more reform-minded leaders such as the recently-reinstated Deng Xiaoping continued. Gradually the scale tipped in favour of those favouring freer operation of the market and less reliance on central planning or administrative allocation.[5] This process culminated in December with the Third Plenum, but events earlier in the year paved the way for this major shift in orientation. One was the revival of urban "free markets" (urban markets for private sale of rural sideline products) by the central leadership sometime after the 5th NPC.[6] Over the year there was much academic debate on such issues as the question of remuneration according to work (rather than the more "communist" principle of remuneration according to need) and the proper role of the law of value in the socialist economy. A conference on finance and trade held in June-July represented the first decisive victory for an approach to reform emphasizing the allocative role of the market and the "law of value".[7] By October, the law of value was being promoted in earnest, a significant event being the publication of a speech by Hu Qiaomu (who in March was appointed President of the newly-established Chinese Academy of Social Sciences.) This speech, delivered before the State Council the previous July, was titled "Observe Economic Laws, Speed Up the Four Modernizations."[8]

Hu criticized officials who still adhered to the Maoist principle of "politics in command": "They take the will of society, the government and the authorities as economic law which can be bent to political expediency; this, as they see it, is what is meant by politics in command of the economy."[9] Invoking Lenin's dictum that "politics is the most concentrated expression of economics", he insisted that "in so far as the laws of economic development are concerned, the mission of correct political leadership by the Party lies precisely in making the maximum effort to see to it that our socialist economic work operates within the scope of these objective laws ..."[10] The speech was basically a call for realism:

> The People's Republic will soon be 30 years old; we must no longer use lack of experience as a pretext to explain away our mistakes. ... It is imperative, especially at this moment, to sum up both positive and negative experiences in real earnest, strive to do things consciously in keeping with objective economic laws and actively give play to the superiority of the socialist system.[11]

To this end, Hu advocated studying Western-style economic management in order to learn "analytically and selectively" from the business success of the bourgeoisie, while at the same time steering a course between "the tendency to think highly of everything foreign" and the Maoist overemphasis on self-reliance.

Hu's speech was far from a rejection of planning; on the contrary he emphasized the need for comprehensive planning at the central level, incorporating local specialization and geographical division of labour under central guidance. At the same time, however, he stressed the necessity to make rational use of the law of value to eliminate waste and inefficiency in production,

and the necessity for the economic interests of the state, the enterprise, and individual workers to converge. To achieve the latter, Hu argued, it was necessary to adhere to the principle of remuneration according to work, and to implement production bonuses and piecework as methods of improving productivity; moreover, "what should be done should be done without any misgivings."[12] On a practical level, Hu discussed such ideas as administrative restructuring, promotion of the contract system, reform of the banking system, and strengthening economic legislation and enforcement. Hu also advocated sweeping reforms in agriculture. He ended with a plea for the development of economics as a science.

The Third Plenum, December 1978

Discussions such as this set the stage for the political event which was undoubtedly most influential in setting the course for reform: the Third Plenary Session of the Eleventh Central Committee of the CCP, held in December 1978. The Third Plenum is widely recognized as the decisive turning point marking the end of the often violent emphasis on class struggle which characterized the Cultural Revolution period, and the beginnings of a new stress on stability and economic growth which favoured adherence to market principles rather than to central planning.

The communique of the Third Plenum, however, had nothing at all to say about individual operations. It outlined in very general terms the new economic and political priorities. Its principal message was that since "the large-scale nationwide mass

movement to expose and criticize Lin Piao and the 'gang of four' has in the main been completed victoriously, the stress of the Party's work should shift to socialist modernization as of 1979." [13] It recognized that this task would require major changes in the country's economic structure, including the structure of the relations of production: "Carrying out the four modernizations requires great growth in the productive forces, and requires changes in all methods of management, actions, and thinking which stand in the way of such growth. Socialist modernization is therefore a profound and extensive revolution."[14]

This "revolution", however, was to be a peaceful one: "It has been shown in practice that whenever we maintain the society's necessary political stability and work according to objective economic law, our national economy advances steadily and at a high speed; otherwise, our national economy develops slowly or even stagnates and falls back."[15] This, according to the communique, was what happened during the cultural revolution, and despite the progress made since,

> ... there are still quite a few problems in the national economy, some major imbalances have not been completely changed and some disorder in production, construction, circulation and distribution has not been fully eliminated. A series of problems left hanging for years as regards the people's livelihood in town and country must be appropriately solved.[16]

To this end, the Central Committee exhorted the Party and the people to "emancipate their thinking, dedicate themselves to the study of new circumstances, things, and questions, and uphold the principle of seeking truth from facts, of proceeding from reality and of linking theory with practice" in order to

"correctly work out the concrete path, policies, methods, and measures for carrying out the four modernizations and correctly transform those aspects of the relations of production and superstructure that do not correspond with the swiftly developing productive forces."[17]

The significance of the Third Plenum in charting out the course of economic reform can scarcely be underestimated. Virtually every study of the Chinese economy published in China since 1979 uses it as a benchmark for measuring economic progress. This is true no less of studies of the individual economy. Although the Communique itself did not mention it specifically, the stress on development of the forces of production and on changing those aspects of the relations of production which do not promote development while encouraging those which do, combined with the injunction to emancipate thinking and seek truth from facts, gave the green light to experimentation with policies which had hitherto been condemned outright.

The Individual Economy in the New Development Strategy

In the wake of the Third Plenum, Hua's Ten-Year Plan was quietly shelved, and Hua himself gradually removed from any position of real power, though this change was effected without any dramatic purges.[18] Many party leaders who were purged during the cultural revolution had their reputations posthumously rehabilitated; the most prominent were Peng Dehuai, ousted by Mao in 1959 after serious differences over the Great Leap, and (in

1980) Liu Shaoqi, who died in prison in 1969. Those who were still alive were restored to positions of power. They included the former "capitalist roaders" Peng Zhen and Bo Yibo. The careers of other leaders closely aligned with Deng flourished; these included Hu Yaobang and Zhao Ziyang. In July 1979 the economist Chen Yun was made vice-premier (along with Yao Yilin and Bo Yibo), and also became chairman of the newly-formed State Finance and Economic Commission. These personnel changes marked significant shifts in the structure of power and general ideological orientation among the top leadership. All were part of the opposition to the grandiose principles embodied in the Ten-Year Plan.

The new development strategy adopted after 1978 was designed to address the various problems outlined in the previous chapter, but to do so in ways consonant with the basic economic thinking of the new post-Hua leadership. The retrenchment was introduced at a Central Committee Work Conference in April 1979, under the watchwords "readjustment, reform, correction, and improvement." Many of the larger and more expensive development projects begun in 1978 (especially those relying on large inputs of foreign capital) were shelved, and the Plan itself was soon revised, with investment priorities redirected away from heavy industry.[19]

This process of thoroughgoing policy renovation continued through the period under study. As it eventually unfolded, the new post-Mao development strategy came to include the following major elements:[20]

1. In development priorities, an emphasis on light and consumer-goods industries, with agriculture ranking second, and heavy and basic industry third.

2. Extensive reorganization of agricultural production, including the dismantling of rural communes.

3. A new conception of economic growth involving steady rather than astronomical growth rates, steady improvement in living standards, and a new stress on economic efficiency in addition to increases in output.

4. Decentralization of many decision-making powers down to the enterprise and (in the countryside) household level by means of various kinds of "responsibility systems" (while maintaining overall centralized economic planning.)

5. Progressive introduction of market principles.

6. The adoption of various kinds of material incentives and differentiated wage scales to spur productivity; along with rejection of "egalitarianism" in favour of income differentials.

7. Limited acceptance of private initiative, especially in agricultural and the tertiary sector, in connection with an effort to diversify forms of ownership and operational forms.

8. A new emphasis on consumption rather than investment.

9. New investment priorities such as infrastructure and housing.

10. Emphasis on technological modernization as well as the rapid renovation of existing enterprises; and the selective use of imported technology to do so.

11. Shift in spatial development priorities from regional self-sufficiency to specialization and interdependence and from reducing interregional disparities to concentrating development in already-favoured coastal areas.

12. An open-door policy in foreign trade and investment, especially to promote technology transfer.

13. The establishment of export-processing zones.

14. Drastic reduction of the population growth rate through stringent birth control policies.

15. The promotion of any structural changes necessary to bring all this about.

It was in this context that a revised policy toward the individual economy developed. The change from suppression to promotion of the sector was related to two general principles underlying the post-1978 economic reforms. These are decentralization through the use of market forces, and what might be termed "intentional dualism." Together they have created important changes in the basic structure of the Chinese economy.

Many of the changes wrought by the new development orientation involved decentralization of control over many aspects of the economy, and particularly decentralization through the freeing-up of market forces. Decentralization can take many forms, including devolution of actual decision making power downward to the enterprises or the lower levels of the administrative hierarchy, or outward from the centre to the localities. Both these principles were adopted in one form or another as part of the post-1978 reforms. In centrally-planned economies, the other major form that decentralization can take is market decentralization (or "market socialism"). One of the more spectacular trends after 1978 was the unleashing of market forces over many areas of the economy, including procurement and allocation of consumer and producer goods, and labour. Many such decisions which had previously been handled administratively were consigned to the marketplace. State-run enterprises were allowed and even encouraged to compete amongst each other, and collective and cooperative enterprises were allowed to compete with state-run units. More gradually, individual enterprises were encouraged to take their place in the competition for goods and

markets. The coexistence of the various kinds of enterprises--always "under the leadership of the state-owned economy"--was supposed to improve overall performance, and as a desirable side-effect, improve the efficiency of the state-run enterprises themselves, which had been suffering from the complacency engendered by their previously unchallenged monopoly position.[21]

In a sense, the adoption of decentralization via the use of market forces was related to the adoption of material incentives (another hotly-debated issue which was anathema in the Maoist era) intended to increase worker productivity. In larger enterprises these incentives took the form of payment tied to production and productivity bonuses. For small collectives and individual enterprises, the idea of profit retention and direct responsibility for profits and losses provided ample incentive for the new entrepreneurs.

Apart from market decentralization, the second reform principle to which the promotion of the individual economy is tied is a trend toward what might be called "intentional dualism," or even a revival of the Great Leap Forward principle of "walking on two legs." The new policies favoured increased operation of the market, but the area where it became most visible was the tertiary sector, which was still dominated by small-scale collectives and cooperatives and increasingly, individual operations.

As outlined in Chapter 2, urban collectives and cooperatives originated in the socialization of small-scale private trade and handicrafts in the mid-1950s. They were mainly

products of the merger of small private handicraft, commercial, and service enterprises. Those that avoided amalgamation formed the core of the individual sector. Together they formed what in other contexts is sometimes called the "informal sector" of urban economic activity: small-scale, self-capitalized, low-technology enterprises, lacking the security and benefits found in the so-called "formal sector" (in this case state-sector) enterprises.

All these forms of business shared common roots as part of what could be termed the "traditional" small-scale sector of the non-agricultural economy, and despite the changes in institutional forms produced by one socialization campaign after another, they had never been eliminated or replaced by "socialized large production." The real dividing line was not between state-owned enterprises and collectives, but between state-owned enterprises and large collectives on the one hand, and small collectives, cooperatives, and individual enterprises on the other. What distinguished the two categories were size of enterprise, level of state investment, and degree of state control. What distinguished the individual economy from the other members of that second category, was that it represented the only area of the economy where private ownership of the means of production was still recognized as legitimate.

For this reason, although the post-1978 policy of restoring and developing the individual economy was linked to the promotion of the sector of small collectives and cooperative enterprises, the individual economy has consistently been treated as a

distinct category, both in theory and in practice. Small collectives and cooperatives might be disdained as an inferior form of employment, but they were nevertheless seen as part of the socialist collective economy. The individual economy was by definition private ownership, and thus it carried its own special connotations, and special dangers.

In very simplified terms, then, within the new economic development strategy, the basic result of the two trends outlined above was the gradual emergence of an economic structure consisting of two elements: a state-run sector consisting of large-scale enterprises, offering to its workers welfare guarantees and lifelong job security, supported by state investment, dominated by central planning, and tied to the world market; and a small-scale collective and individual sector in which market forces prevail, geared to supplying the everyday needs of the domestic market with minimal state investment. The individual economy was part of that second category, but occupied a very special position within it.

The new development strategy was operationalized through a series of policy measures adopted from 1978 onwards, culminating in the adoption of new urban economic policies in 1984. The rest of this chapter will outline in detail the process by which the role of the urban individual economy was clarified and institutionalized during that period.

The Urban Individual Economy, 1979-81

In essence, central government policy toward the urban individual economy can be said to have liberalized steadily beginning in 1978. But this statement masks the intricacies, the twists and turns in policy development which can be traced through central policy documents containing rulings on the individual economy itself, statements by top government leaders, legislation on relevant issues, and national press coverage. What is clear throughout is the legacy of the ambivalence of the previous thirty years. One consistent theme which will become apparent is the continuing ambiguity of the status of the individual economy, and the resultant tension between central policy and the actions of local officials and agencies which reveal considerable opposition toward the unbridled growth of the sector. Whatever dissension may have occurred internally at the top, to the public the central government consistently championed the development of the individual economy as it gradually tried to lay down the limits within which it would be allowed to operate.

From the beginning of 1979 to the summer of 1981, the status of the individual economy remained ambiguous, despite repeated signals from the central government that it was officially recognized and condoned. Coverage in the press was sporadic through 1979 but gradually picked up the following year. Repeated statements from central government leaders and administrators that it was to be seen as an ineradicable feature

of China's economy began to appear late in 1979. Individual firms were licensed and taxed, and governed by new regulations passed at the local level as early as October 1979. The following year regulations from various central government agencies began to appear, all with the intent of smoothing the way for individual enterprises. But it was not until July 1981 that they were sheltered under the umbrella of comprehensive central regulations issued by the State Council and widely publicized in the media.

In August 1979, Vice-Premier Li Xiannian addressed a national conference of heads of commercial bureaus on the necessity of increasing the number of cooperative enterprises in commerce and services. In passing he also endorsed the idea of legalizing self-employed hawkers. The speech, reprinted in Renmin Ribao, ended with the startling comment that, in addition to developing the collective economy (including cooperatives), "we should also permit certain individual operators, under the management of their local bureau for industrial and commercial administration, to ply the streets performing such activities as cutting hair, repairing shoes, sharpening knives, fixing umbrellas, repairing furniture, selling snacks, etc.; this is very beneficial in filling gaps in the commercial network, providing urban employment, and bringing convenience to the public."[22] This was apparently the first major statement by a central leader on the desirability of expanding the individual sector.

However, there was in fact a central document issued sometime in 1979 which apparently sanctioned the provisional licensing of individual firms. It is referred to in a set of regulations passed by the Beijing municipal government in June 1980, "in the spirit of State Council National Document No. 244 (1979)." This document was apparently for internal circulation only; at any rate this research has failed to unearth a published version.[23]

On 14 September 1979, the Party organ Renmin Ribao gave its own endorsement to individual service enterprises. An editorial titled "Give the Green Light to Individual Service Trades" reminded readers that it was permitted in the Constitution for "individual workers to undertake work necessary for society," and urged the relevant agencies to "earnestly implement policies, make appropriate arrangements, and give full play to their positive role in promoting a flourishing urban economy and bringing convenience to the lives of the masses."[24]

On September 29, marking the 30th anniversary of the founding of the PRC, Ye Jianying delivered the first public official condemnation of the Cultural Revolution.[25] The speech was also the first major address since the Third Plenum which explicitly included the individual sector as a legitimate component of the national economy. Reviewing the accomplishments of the previous thirty years, Ye stressed that capitalism had already been eliminated: "We have abolished the exploitation of man by man, transformed the system of private ownership by small producers, set up comprehensive socialist public ownership of the

means of production ... and thus it has become possible for the Chinese people ... to enter socialist society." Moreover, "As classes, the landlords, the rich peasants and the capitalists have ceased to exist in our country, and the great majority of those who are able to work have been transformed into working people earning their own living." The product of this transformation was the three-tiered economy dominated by the state-owned and collectively-owned sectors. In this context, Ye said, "Individual economy practised by urban and rural working people, which still exists on a limited scale, is already affiliated to the socialist public economy and serves it in an auxiliary and complementary way."[26] The coupling of the idea that capitalists as a class had been eliminated, with the idea that the individual economy was now an auxiliary to the public-ownership economy plainly endorsed it as an acceptable and even beneficial part of the economy, and certainly not as a resurgence of capitalist exploitation.

A major theme of Ye's speech, as in the Third Plenum communique, was the stress on the socialist transition as a peaceful and gradual "revolution." The methods used in the early and mid-1950s, according to Ye, achieved domination of the economy by public ownership without causing major social upheaval or disruptions in production:

> The idea that, after seizing power, the proletariat could transform capitalist into socialist economy by the peaceful means of "redemption" was advanced by Marx and Lenin long ago, but had never been put into effect. Comrade Mao Zedong creatively applied this Marxist-Leninist principle to the concrete conditions of China and formulated the correct policy of utilizing, restricting and transforming capitalist industrial and commercial enterprises.[27]

The Eighth Party Congress of 1956, Ye said, represented the correct approach to the construction of socialism. Beginning with the Great Leap Forward, and particularly during the cultural revolution, this approach was abandoned, with disastrous results for the economy. The "ultra-left line of Lin Biao and the gang of four" erred by

> ... exaggerating to the extreme the reaction of social consciousness on social being, of the superstructure on the economic base, and of the relations of production on the productive forces, in the belief that man could effect at will a so-called change or transformation of the superstructure and the relations of production. ... [They] wantonly criticized the so-called "theory of the unique importance of the productive forces," that is, the fundamental principle of historical materialism.[28]

In terms of economic practice, according to Ye, the major error of the "gang of four" was that "they were against developing the productive forces and wanted to supplant production with their so-called 'class struggle.'" In doing so they denied the importance of building a "material base for the consolidation and development of the socialist system." Furthermore,

> They denied the basic correspondence between the socialist relations of production and the growth of the productive forces. They were against maintaining the relative stability of the socialist relations of production and did all they could to advocate a "pauper's transition" (to higher stages of collectivization) which went beyond the actual level of development of the productive forces and objective needs.[29]

The lesson to be drawn from this is that "for socialism to replace capitalism, we must liberate the productive forces and achieve a constantly rising labour productivity to meet the people's material and cultural needs." To do this, said Ye, "We must proceed from China's realities, make a careful study of the

laws of economics and the laws of nature, and open up a path to modernization suited to China's specific conditions and features."[30]

Ye's reference to the individual economy in this key speech indicates that by the autumn of 1979 its continuing existence had been recognized and officially endorsed at the highest levels of Party and government. In addition, the stress on the importance of economic development uninterrupted by violent class struggle, and on the primacy of the forces of production over the relations of production, provided a theoretical and tactical foundation for its further development.

In case any doubts remained in the hearts of would-be private entrepreneurs, Xinhua News Agency on 9 October 1979 announced that the Beijing municipal government had already issued business licenses to three hundred individual enterprises.[31]

What followed was a period of local experimentation under the benevolent but watchful eye of central authorities. Following on Beijing's well-publicized lead, in late 1979 and the first half of 1980 many other localities (provincial, municipal, and within the cities at the urban district level) passed their own measures endorsing and regulating the activities of individual enterprises under their jurisdiction. Although the central government itself did little to aid materially the proliferation of individual enterprise, the consistency of local-level regulations make it clear that in late 1979 and early 1980, even in the absence of publicly-revealed central

legislation, the individual economy was not operating in a vacuum. On the contrary, the degree of similarity between the regulations of different localities suggests the existence of relatively detailed central-government guidelines.[32]

Employment Policy

A major impetus for this growing leniency toward individual enterprise was increasing concern about the problem of urban unemployment. At the time various expedients were being used to create much-needed jobs for the millions of young people returning from the countryside. One method common in 1978-79 was to popularize early retirement so that sons and daughters could take over vacant jobs in their mother's or father's work unit. In 1979 red paper banners proclaiming "glorious retirement" (guangrong tuixiu) were a common sight on doorways in city streets, and in Shanghai "glorious retirees" were driven home on backs of trucks, with banners flying and bands playing. Emerson estimates that of the over 8 million jobs created in 1979, more than 3.32 million were created by early retirement.[33]

Another tactic was the promotion of various kinds of self-generated employment, especially cooperatives and small collectives. As in the late 1950s and early 1960s (after the "high tide" and the Great Leap), neighbourhood and lane committees, workers' housing estates, state enterprises and units of various sorts (such as universities and hospitals), and the larger collectives began setting up workshops and small stores and service stations staffed by the offspring of their workers

and staff. The unemployed themselves were also encouraged to band together to set up small cooperative and collective enterprises.[34] These businesses were given much publicity in the Chinese press.

But by 1979 it was clear that more systematic reform of employment and labour allocation policies would be necessary to solve what was far more than a temporary problem. Possible strategies for dealing with the employment problem were hotly debated in government and academic circles.

The relationship discussed in the previous chapter between the problems of urban unemployment and the inadequacy of urban commerce and services did not escape Chinese economists or government officials. Indeed, measures to combat the two tended to converge. Young people were urged to find ways of creating employment for themselves, and were told specifically to do this by opening much-needed shops and services. Agencies and officials in charge of economic administration at various levels were told to concentrate on expanding the tertiary sector, and were urged to rely on small collectives and cooperatives and later on the individual economy to do so.

This approach is exemplified in an editorial which appeared in Renmin Ribao in June 1979 praising certain cities for their efforts to expand commerce and services using local investment and tapping the pool of young people waiting for job assignments, and criticizing other cities for not understanding the importance of the tertiary sector in the current readustment phase. The

editorial counseled enterprises and localities to look within themselves for personnel and capital to expand the commercial network, rather than expecting investment from the state:

> Our country has a large population, and the number of localities needing money to carry out the four modernizations is large; in the short run, it is no good to ask the state to come up with a lot of money to develop commerce and services. But there is a lot of potential among the masses. Recently, Beijing, Shanghai, Tianjin, Guangzhou, Fuzhou, Jilin, etc. have opened up channels to arrange employment for young people awaiting assignment, and have opened up a promising future for expansion of commerce and services.[35]

In July 1979 the prominent economist and advisor to the State Planning Commission Xue Muqiao published some very outspoken comments about the rigidities of the labour allocation system.[36] He advocated letting people find jobs in existing enterprises or create jobs for themselves by forming cooperatives, as they had done in the 1950s before the present labour allocation system was introduced. Not only would such a system provide employment, it would also augment the inadequate urban service sector. The kinds of enterprises he was advocating, Xue said, were labelled in the past as "capitalist loopholes," but now they should be enlarged into "gates" by developing collectively-owned enterprises. At the same time, he reminded readers of the clause in the Constitution permitting self-employment: " ... this clause should also be implemented. If it is, the urban employment problem won't be difficult to solve. Recently Beijing's Chongwen District has been experimenting, it's said to be very effective." Here Xue was advocating only the

smallest of individual operations--the examples he gave were itinerant knife-grinders and cobblers--but coming from China's senior economist, his opinions were extremely influential.

In terms of central policy, the turning-point for the individual economy was a national work conference on labour and employment convened by the Central Committee in August 1980. This conference formulated the "fundamental policy" not only for creating employment but also for reform of the employment allocation system: "to emancipate the mind, adopt a more flexible policy, develop production, offer more job opportunities, and implement the policy on state-run [enterprises], collectively-owned [enterprises], and self-employment existing under the government's unified plan and guidance."[37] In deciding to "open up avenues of employment" the Central Committee endorsed several new measures, including the promotion of self-financed cooperatives and collectives set up by enterprises and by the unemployed themselves, changes in working hours and shift arrangement to create new jobs, expansion of vocational and technical education, organization of labour service companies and employment agencies, and promotion of the individual economy.[38] As a Xinhua radio report put it,

> ... the conference urged all departments concerned to support the individual economy and not to make things difficult for individual labourers or to discriminate against them. All law-abiding self-employed labourers should receive social respect, it noted.[39]

The general approach to job creation was to be, "under the overall plan of the state, the combination of employment by way of job placements by labour departments, voluntary organization

of the jobless, and self-employment."[40] Furthermore, it was stressed that this was to be more than just an expedient or temporary measure; the new measures were meant to be seen as a major change in policy orientation consistent with spirit of the Third Plenum. This meant a marked elevation in status for the individual economy; as two prominent economists later pointed out:

> The new policy has ... changed the mistaken notion that only a job with a state-owned enterprise really counts as employment. In light of the new policy, a job in collective or individual commerce and industry is also a good job. This is in complete agreement with the fundamental principle laid down at the Third Plenum ... that ownership of the means of production in socialist society may consist of different economic elements as long as the state and collective economy plays the dominant role.[41]

A report on the conference in the Communist Youth League newspaper Zhongguo Qingnian Bao, whose readers were part of the target population the new policy was designed to benefit, also underlined the necessity for a change in public attitudes: "To encourage and support the appropriate development of the individual economy, all law-abiding individual workers should receive the respect of society."[42]

Following the work conference, the Central Committee issued a policy document which is referred to in several sources, but which apparently has not been made public: Central Document (1980) No. 64. By this time a total of 320,000 urban individual operators had been granted business licenses.[43] As the Xinhua radio report cited above pointed out, however, most of these newly-licensed individual operators were "middle aged and old people upwards of 40 to 50 years of age. A substantial

proportion had been engaged in individual production before the Cultural Revolution and were forced to give up their work and remained jobless."

Promotion of the Individual Economy, 1980-81

In the wake of the work conference on employment, Chinese officials, with the cooperation of the media, made a concerted effort to popularize the concept of self-employment, especially among young people. In late August a "responsible person" from the General Administration for Industry and Commerce, the agency responsible for the overall administration of the individual economy, gave a widely reprinted interview to a Xinhua reporter.[44] The official brought up themes that would become a familiar refrain over the next several years.

The employment conference, he said, had underlined the vital importance of developing the individual economy. Since the Third Plenum the number of individual enterprises had increased, but except in a few cities, it was still not growing quickly enough. The main problem was opposition from local cadres:

> The majority of localities have given priority to this task, but there are also some localities and departments that have all kinds of misgivings, or even disagree in their minds; they impose a lot of limitations, don't allow this, don't allow that ... Where these problems emerge, it is largely because of the influence of incorrect practices of the past.

This "incorrect practices," according to this analysis, came from the tendency to confuse individual economy with capitalism. Any dangerous capitalist tendencies, this official stated, could be forestalled through propaganda and education,

plus the appropriate economic and administrative measures. Other reasons for the slow growth of the individual sector were related to problems of social status, political participation and future advancement for self-employed workers. Individual operators, he said, should not be discriminated against in educational and job recruitment, and should be allowed to form mass organizations and join the Party and Youth League. He also suggested that de facto discrimination in such areas as taxation, allocation of materials and supplies, and credit were dampening the growth of the individual economy, and urged the relevant agencies to rectify this situation "in the spirit of the Central Committee's national work conference on employment."

Around the time of the conference there was an explosion of publicity about the individual economy in the national press. On August 18 the Beijing newspaper Beijing Ribao published a letter from a reader named Xiao Lingling under the heading, "Let's not have a socialism which is neither fish nor fowl." The writer questioned the wisdom of promoting individual enterprises in what was supposed to be a socialist planned economy, noting that "ever since Liberation we have consistently reformed individual economy, especially during the cultural revolution, and the state-run economy has developed greatly; now we are making a 180-degree turn, we have to support and develop some individual economy in the cities, is this not a step backwards?" The paper announced that it was prepared to initiate a debate on the question of whether "a socialism which permits [private] husband-and-wife stores is neither fish nor fowl," and invited

readers to respond. They did: the paper published some forty-two replies before the debate was called off at the end of September.[45] Not surprisingly, most of the replies that were published supported individual enterprise, although there were some who agreed with Xiao Lingling. The debate was summarized in, among other places, the national paper Guangming Ribao and for foreign readers in Beijing Review.

The "fish nor fowl" debate was just part of a spate of articles on the individual economy which appeared during the last half of 1980 in newspapers, popular magazines, and scholarly journals. These articles were remarkably similar in theme and even content: the individual economy was here to stay; it was not capitalism but a necessary supplement to the public-ownership economy; individual operators were deserving of respect and an equal place in society; the policy had the support of the central government; the "appropriate development" of the individual economy must not be interfered with by local officials and agencies; central and local agencies should act quickly to formulate policies and legislation supporting its development.[46]

Some of these articles gave useful information to people thinking of opening businesses. For example, a column in Zhongguo Qingnian Bao by two representatives of the General Administration for Industry and Commerce, under the title "For Young People Getting Ready to Open Individual Operations" gave straightforward answers to such questions as, "What trades are

permitted for individual businesses?", "Who may operate individual businesses?", and "How does one apply to open an individual business?"[47]

Around the time, some tentative steps were taken by various central agencies to ease the financial and operating problems of individual firms. The Bank of China announced that as of September 1 it would authorize interest-paying bank accounts for individual firms, and would permit its branches to issue loans to "licensed, legitimate individual enterprises with the ability to repay." Monthly interest was set at 0.42 percent.[48] In October the Finance Ministry reformed tax payment methods for individual and cooperative firms. This measure (discussed in detail in Chapter 4 below) effectively lightened the commercial tax burden on individual firms, and shifted the responsibility for tax administration and collection from central to local-level agencies. Following this, in the last three months of 1980 many provincial and municipal level agencies passed tax reform measures for individual businesses.[49]

In September 1980, the individual economy took another step toward institutionalization when the country's first association for self-employed workers was set up in Harbin.[50]

Concrete measures such as these, along with the adoption of the new employment policy and the widespread publicity, resulted in a surge of growth for the individual economy. From the 320,000 individual operators reported around the time of the employment conference, by the end of 1980 the official figure was 810,000, an increase of over 150% in one year.[51] The sudden

proliferation of individual firms, coupled with a general surge of unregulated economic activity prompted by the post-Third Plenum economic reforms, made the search for some form of institutionalization and regulation inevitable. This is especially true because by the end of 1980 a serious budget deficit and double-digit inflation prompted, in Domes' words, "more drastic changes in the developmental concept, which were characterized by a thoroughgoing reorientation of development priorities, further retrenchments in major investment projects, and across-the-board thrift."[52] In this connection, a Central Work Conference was held in December 1980, followed by budget cuts, price freezes, and cancellation of many large-scale industrial projects. At the same time a general effort was made to reassert central control over the market economy.

An attempt to spell out exactly what was permissible and what was not came in January 1981 with the promulgation of the State Council's "Directive on Strengthening Market Management and Cracking Down on Speculation, Profiteering, and Smuggling Activities".[53] In a newspaper interview an official from the market management branch of the General Administration for Industry and Commerce explained the necessity for the new regulations. Apart from the blind pursuit of profits by "the leadership of some units," he said, a major problem was that, although recent reforms had stimulated the economy and created a situation where "diversified economic forms now coexist, diverse circulation channels, forms of operation, and forms of combination have emerged, and the entire national economy has

picked up," the innovations had also brought forth forms of business that were clearly illegal or inflationary, or which undercut the state plan. Economic legislation and market management procedures had not kept up with the new developments, and the result was that the legal vacuum itself made such activities possible. "The distinction between legal and illegal activities is not very clear," the official explained, which makes administration and management very difficult, and "gives speculators and profiteers opportunities to exploit." Therefore, regulatory laws must be passed and legal education made a priority.[54]

The directive itself spelled out quite clearly the permissible limits of legitimate business activity by various kinds of economic units as well as individuals. More important, it spelled out what was not permissible, for example what specific activities were defined as "speculation and profiteering." The formulation of specific rules and regulations, however, was left to the localities.

The directive did not represent a wholesale crackdown on all non-planned economic activity nor a pullback from the principle of diversifying the economy. Rather it was an attempt to regularize and define the limits of these activities, and at the same time to deal with some of the very real problems that had arisen in the absence of specific guidelines and prohibitions. In the interview quoted above, the market management official explained:

> What we must actively suppress and crack down on are only those illegal activities which disrupt socialist construction, endanger the national economy and people's livelihood, or constitute speculation and profiteering. We cannot and will not suppress legal operations, rather we must actively support and safeguard them to give full play to their role ... Strengthening of market management and elimination of speculation and profiteering not only cannot stifle the market, on the contrary it will make the market even more vibrant.

Statements made in ensuing months by Yao Yilin, head of the State Planning Commission, confirm that, however restrictive the State Council directive was, it was not intended to reverse the recent attempts at liberalization of the economy, nor to suppress private activities. In February Yao delivered his report on the fulfillment of the 1980 plan and readjustment of the 1981 plan to the Standing Committee of the 5th National People's Congress. While the "readjustment" did affect some of the more wildly optimistic commitments of the previous two years, Yao affirmed that "reforms over the past period that have proved effective should be encouraged, resulting successes should be consolidated and developed, and new reforms should be made on a trial basis step by step under proper leadership." Among the measures to be reaffirmed, he included: "Allowing the adequate development of an urban economy of individual ownership, on the condition that public ownership remains the predominant element."[55]

The following month, Yao elaborated on this principle in a remarkable speech given at a national conference of high-level commercial bureaucrats. In the strongest statement on the individual economy made yet by a member of the central leadership, Yao told his influential audience that as a long-term

policy "we must appropriately develop individual commerce." This was an important way of dealing with the problem of providing employment for surplus labour in a country where the population was growing by about 10 million per year, and where modernization was expected to reduce the demand for industrial labour. It was necessary therefore to employ more people in the tertiary sector (di san chanye). Development of the individual economy was one way to achieve this without overtaxing funds available for state investment: "Certainly it is necessary to develop the state-run commercial network, but it can't be developed very quickly ... because this requires too much investment."[56]

Yao urged his audience not to be overly concerned with "details like what is capitalism and what is not capitalism, ... whether or not old masters can take on employees, whether they can employ one worker, two workers, or several workers ..." Policies on these issues had been relaxed, he said, and should be relaxed even further. He was equally cavalier about the potential dangers of such an approach: "It is possible that some exploitation will emerge, or that some capitalism will emerge, but this cannot greatly affect the nature of the socialist economy as a whole."

Because the benefits so greatly outweighed the dangers, Yao said, "don't worry about giving them a lot of control, a lot of regulations regarding the conditions under which they may or may not operate." He advised his audience: "After you have given them some latitude for a while, if the danger grows, you only have to give an order, block supplies here, control markets

there, and everything will be fine (jiu xingle)." Too much regulation, or excessive competition from the state-run commercial outlets will "squeeze them out" and place an even greater burden on state resources, including welfare funds; moreover, "the money will be spent, but people will still make trouble." Yao concluded: "You can loosen up a little on individual peddlers and small handicrafts."

The following month (March 1981), Premier Zhao Ziyang addressed a full session of the State Council on the subject of employment.[57] Like Yao, he stressed the importance of expanding the tertiary sector. To develop employment in commerce, handicrafts, and services, Zhao said, it was necessary to "adopt a variety of economic elements and management forms. One important direction in arranging employment for a relatively long period of time will be various forms of collective and individual economy." Regarding the individual economy in particular, he listed the permissible areas of operation, which included small handicrafts, commerce, services, passenger and commodity transport, home repair and decoration. He reiterated its subsidiary and supplementary position in relation to the state-run and collective sectors, and stated that individual operators should be allowed to take on a "small number" of helpers and apprentices. This approach would "benefit the development of production, would stimulate markets, satisfy the needs of the public, and expand employment."

To accomplish all this, Zhao said, would require the cooperation of government agencies at all levels:

> Various levels of local government must, on the basis of the requirements of national economic readjustment and actual local needs, establish plans for the development of collective and individual economy, and resolve various problems encountered in their development. Relevant agencies must set policies in such areas as raising capital, supplies, recruitment of workers and apprentices, commodity prices, wages and labour insurance, etc., and establish procedures for the management of the collective and individual economy.

Despite the active support of central leaders, however, the attitude of local agencies was clearly becoming a cause for concern. The newspaper Shichang Bao (Market News) raised questions about the large number of individual firms pushed out of business as a result of harassment by local officials. It reported that a cadre in Jinan (the capital of Shandong province) estimated the number of individual businesses in that city had decreased by 50 percent from the previous year.[58]

Around the same time, in March-April 1981, a major theoretical conference on ownership of the means of production was held in Chengdu by two sections of the Chinese Academy of Social Sciences, the Economics Research Institute and the Institute for the Study of Marxism-Leninism. The conference drew delegates from central and local-level Party and government agencies all over the country, as well as academics and representatives of propaganda organs. The message on individual economy was clear:

> The majority said that our country is a socialist country in which public ownership holds the dominant position ... but the appropriate development of individual economy which does not exploit others has advantages. The individual economy has the effect of filling gaps and deficiencies in the socialist economy; it will be a long-term, stable element within the socialist economy, and is a necessary appendage to it.[59]

Resolution on Party History, June 1981

Thus by the middle of 1981, a clear and consistent policy position on the individual economy had emerged. Its place in the long-term economic development strategy was clearly spelled out in what is undoubtedly the key central document of the early 1980s, the Resolution on Party history adopted by the Sixth Plenum of the 11th Central Committee in June 1981.[60]

This document, a major rewriting of history and reassessment of the successes and failures of the CCP under the leadership of Mao Zedong, was above all an effort to bolster the legitimacy of the current regime and give credence to the policies and strategies it was trying to institute. It was passed by the same gathering that replaced Hua Guofeng with Hu Yaobang as Chairman of the Central Committee and firmly entrenched Deng Xiaoping, Zhao Ziyang, Chen Yun, and other opponents of the "gang of four"--as well as members of what has been called "the generation of the Eighth Central Committee"--in the highest echelons of the party.[61]

The Resolution listed the establishment of a socialist economy and completion of the socialist transformation of private ownership "in the main" as one of the party's major achievements. Between 1949 and 1956, it said, "the guidelines and basic policies defined by the Party ... were correct and led to brilliant successes," largely because they incorporated the gradualist principles of Mao's "general line for the transition period." By 1956, this process was "largely completed in most

regions," and the "peaceful redemption of the bourgeoisie" had been realized. The 1959-65 period was also labelled a success, despite certain shortcomings and errors--including "the over-hasty transformation of small private handicrafts and commercial enterprises."[62]

The Resolution praised the 1956 Eighth National Congress of the CCP for adopting what was now seen as the correct line on the construction of socialism. The 1956 party congress, as seen from the perspective of 1981, was significant because it repudiated class struggle as the basic contradiction facing the country. Instead, it recognized that (then as now)

> ... the chief task confronting the whole nation was to concentrate all efforts on developing the productive forces. ... Although class struggle still existed ..., the basic task of the [people's democratic] dictatorship was now to protect and develop the productive forces in the context of the new relations of production.[63]

The Resolution stated that the errors of the subsequent anti-rightist campaign and Great Leap Forward were "leftist" errors caused by

> our lack of experience in socialist construction and inadequate understanding of the laws of economic development and of the basic economic conditions in China. More important, ... Comrade Mao Zedong and many leading comrades ... had become smug about their successes, were impatient for quick results and overestimated the role of man's subjective will and efforts.

The result of their smugness was "serious difficulties between 1959 and 1961, which caused serious losses to our country and people."[64] During the period of recovery following the Great

Leap, according to the Resolution, correct economic policies were adopted, but they were again undermined during the Cultural Revolution.

The main point of the Resolution, of course, was to make a clean break with the Cultural Revolution. It claimed that one of the causes of the ten years of "leftist-inspired chaos" was lack of understanding of the historical laws governing the development of socialism. The Marxist classics, the Resolution stated,

> are our guide to action, but can in no way provide ready-made answers to the problems we may encounter in our socialist cause. Even after the basic completion of socialist transformation, given the guiding ideology, we were liable ... to continue to regard issues unrelated to class struggle as its manifestations when observing and handling new contradictions and problems ...

One example of this tendency was the dogmatic adherence to Lenin's argument about the tendency of small production to "engender capitalism and the bourgeoisie daily and hourly on a large scale even after the basic completion of socialist transformation."[65]

The excessive emphasis on class struggle was of course finally repudiated by the Third Plenum of 1978, which the Resolution called "a crucial turning point of far-reaching significance in the history of our Party" because, among other decisions, it "firmly discarded the slogan 'Take class struggle as the key link', which had become unsuitable in a socialist society, and made the strategic decision to shift the focus of work to socialist modernization."[66]

In outlining the Party's achievements since the Third Plenum, the Resolution noted that "announcements were made to the effect that former businessmen and industrialists, having undergone remoulding, are now working people; that small trades people, pedlars and handicraftsmen, who were originally labourers, have been differentiated from businessmen and industrialists who were members of the bourgeoisie ..."[67]

The Resolution ended with a discussion of the future, based on the current leadership's reading of the lessons of the previous three decades, and particularly those of the Cultural Revolution. It reiterated the necessity to stress economic development now that the problem of ownership of the means of production had been taken care of: "In the final analysis, the mistake we made in the past was that we failed to persevere in making this strategic shift ... All our Party work must be subordinated to and serve this central task--economic construction."[68] Work toward this goal, however, must be based on a realistic and thorough assessment of the actual situation, and must accord with "objective economic and natural laws."

The individual economy received the seal of approval as part of the effort to modernize the economy in accordance with "objective economic laws":

> The reform and improvement of the socialist relations of production must be in conformity with the level of the productive forces and conducive to the expansion of production. The state economy and the collective economy are the basic forms of the Chinese economy. The working people's individual economy within certain prescribed limits is a necessary complement to public economy.[69]

The whole question of ownership of the means of production was subordinated to the demands of economic development:

> There is no rigid pattern for the development of the socialist relations of production. At every stage our task is to create those specific forms of the relations of production that correspond to the needs of the growing productive forces and facilitate their continued advance.[70]

The Resolution proposed no new specific policy items. What it did was put forward a comprehensive package of basic principles that were to form the foundation of future policy decisions, drawing carefully-constructed lessons from the past to support them. Nothing new was said about the individual economy, but its mention in this very important document reinforced its renewed position as an ineradicable element in any policies designed to further the new development strategy. The impression the Resolution gave was that, barring any radical change in the orientation of the leadership, this was to be the general line for this new stage in China's development.

State Council Regulations on the Individual Economy, July 1981

One month after the Sixth Plenum, the State Council finally issued a set of "Policy Regulations on the Urban Non-agricultural Individual Economy".[71] Although these regulations will be discussed in more detail in the next chapter, as a summary statement of central policy, the preface deserves to be quoted at length:

> In our country under socialism, the individual economy which abides by the laws and policies of the state, serves socialist construction, and does not exploit the labour of others, is a necessary supplement to the state-run and collective economies. Citizens who engage in individual operations are independent workers who support themselves by

> their own labour. The level of development of China's productive forces is low, and the commodity economy is undeveloped; it is inevitable that for a fairly long historical period, diverse economic elements and diverse forms of operations will coexist. Experience has shown that, under the premise of absolute predominance of the state-run economy and the collective economy, the restoration and development of the urban nonagricultural individual economy has important implications for developing production, invigorating the market, satisfying the needs of the people, and expanding employment. All local governments and departments concerned with finance, commerce, light industry, banking, commercial and industrial management, etc., should conscientiously aid in the development of the urban non-agricultural individual economy, rendering support and help in problems of capital, supplies, sites, taxation, market management, etc. Any discrimination or willful interference, or adoption of negative attitudes towards the individual economy does no benefit to socialist economic development, and is incorrect.[72]

The regulations themselves were supposed to "ensure the healthy development" of the individual economy. Although they included some restrictions on the scale and scope of permissible operations, they basically only prohibited activities that had already been defined elsewhere as "speculation and profiteering." They were much more clearly a measure by the central government to promote rather than restrict individual enterprise, and in fact contained admonitions against interference by any unit or enterprise in the legal operations of individual enterprises, and against charging "arbitrary fees" other than normal taxes and licensing fees. The regulations also affirmed that the "political rights and social status" of the self-employed entrepreneurs were the same as those of all other workers.

Just before the regulations were issued, two other measures were passed by central agencies to smooth the way for individual operators. One, issued by four different agencies, ensured the

provision of operating space; the second, issued jointly by six different ministries and departments, dealt with problems of materials and supplies.[73] Coming at the same time as the State Council regulations, they suggest a high degree of coordination at the central level. They make it clear that at that level, a uniform policy existed which was intended to make it relatively easy for individual entrepreneurs to get into business, obtain the necessary premises, and assure a steady flow of supplies and raw materials. At the same time, measures for registration, payment of taxes, and overall supervision were also strengthened. Again, these measures were clearly not designed to cripple the individual economy, but were meant to ensure that some control was maintained over its operations. The official slogan was "Control without smothering, liveliness without chaos" (*guan er bu si, huo er bu luan*). In all cases, however, the detailed rules for implementation of these policies were left to local officials and agencies, meaning that a high degree of local cooperation was assumed. This, as we shall see, was to be the source of many problems for individual operators.

Development of the Individual Economy, Late 1981-83

The institutionalization of the individual economy in central government policy, symbolized by the State Council regulations of July 1981, marked the beginning of a period of rapid development of the sector. As it grew, however, the tension between high-level support and low-level opposition or obstructionism became more apparent. By late 1982 the problem

was being discussed widely in the Chinese press, which was generally supportive of the self-employed and critical of local bureaucrats, whose lingering "leftist" ideas were seen as the root of the problem. The liberal policies culminated in a set of supplementary regulations passed by the State Council in April 1983, which considerably expanded the scope of permissible operations and extended legal protection to individual firms against harassment by local officials and agencies. Soon afterwards, however, the liberal mood succumbed to growing concern about economic crime and general loss of central control over economic activity. This trend reached its height during the Spiritual Pollution campaign in late 1983.

The New Employment Policy and the New Constitution

In October 1981, the development of the urban individual sector was given further impetus in another initiative by the central government to ameliorate the unemployment problem, particularly among urban youth. The Central Committee and State Council handed down a decision which indicated unequivocally not only that the central leaders had not faltered in supporting measures to expand the individual economy, but also that they were determined to root out lingering opposition to do so.[74] The decision, made public in late November, stressed the importance of the youth unemployment problem "to the interests of the people and to the stability and unity of the country in realizing its aim of four modernizations."[75] It called for a coordinated rather than piecemeal approach to job creation, based on the

principle, proposed by the 1980 central work conference on employment, of promoting various types of self-generated employment, specifically collective and individual firms. "Practice has shown that this principle is correct," the decision said, having created 20 million jobs over the previous three years. Nevertheless, it pointed out, undue emphasis was still being put on placing young people in "already overstaffed state-owned enterprises."[76]

Efforts to create new jobs "should be dovetailed with efforts to readjust the structure of industry and ownership." Absorption of unemployed youths into an expanding service and commercial sector as well as the growing consumer-goods industrial sector, would serve both the readjustment of the economic structure and the creation of employment. Likewise, expansion of the collective and individual sectors would create more jobs, while at the same time readjusting the ownership structure of the economy by decreasing the significance of the publicly-owned sectors. The decision was unambiguous on the latter point: "In the future, while readjusting the structure of industry, emphasis should be placed on creating jobs in the collective and individual sectors of the economy." The coexistence of all three forms of ownership, it stated,

> ... is a strategic decision of our Party, not just an expedient measure. The central authorities call on all members of the Party, above all the leadership on all fronts to follow the guiding ideology in seeking a clear and unified understanding, and to make a concerted effort to make this a reality.[77]

In a sobering assessment of the progress made so far, the decision acknowledged that the individual economy "still falls short of the needs of national economic development," and discussed the need to "dispel the misgivings of cadres, the masses, and unemployed youth" by "further readjusting policies, giving wider publicity to the principles of the party, and explaining the important role the urban individual economy plays in developing production, stimulating the economy, meeting [the people's] needs, and expanding employment." At the same time it stressed that "individual workers are our country's socialist workers," with social and political status equal to workers in other sectors, and that those who met the qualifications were allowed to become Party and Youth League members.[78]

The fifth clause of the decision contained a strongly-worded statement reaffirming central support of both the collective and individual sectors. It attacked "discrimination, restriction, attacks, and annexation" directed against collective and individual firms. It directed relevant departments under the Central Committee and State Council to "sort out existing relevant regulations and propose concrete methods for their reform." It instructed "Party committees and governments at all levels" to "call upon the State Planning Commission, National Economic Commission, State Capital Construction Commission, and the various departments dealing with finance, commerce, supply and marketing, commodities, grain, prices, banking, taxation, industrial and commercial bureaus, foreign trade, city construction, public security, overseas Chinese affairs,

education, health, labour, educated youth and all departments of industry, as well as such organizations as trade unions, Communist Youth Leagues, Women's Associations, Overseas Chinese organizations, the Democratic Party of National Construction and associations of industry and commerce, all to coordinate their efforts under overall planning, to take up their respective duties in developing the urban collective and individual economy."[79]

It went on to reiterate the statement made in the State Council regulations passed three months before, that the property, legal business activities and legitimate revenues of collective and individual enterprises should be protected by law, and that no department or unit was allowed to interfere with them. Apart from legitimate taxes and management fees, no department or unit was allowed to charge additional fees under any pretext. For their part, individual and collective entrepreneurs were to be educated to abide by the law, submit to supervision by state agencies, and not engage in illegal activities.[80]

The decision concluded by urging local party committees and governments to take a more active leadership role in the area of employment. It also acknowledged that the response "among the cadres and masses" to efforts to open new avenues of employment and reduce the importance of state recruitment had not been uniformly positive. It recommended that

> ... party committees at all levels, political organs, propaganda, education, cultural, news and publishing, and theoretical departments and various mass organizations must strengthen their ideological and educational work among cadres, masses and unemployed youths to continue to eliminate leftist influences and rectify traditional concepts of slighting collective operations and disdaining individual firms, slighting consumption and disdaining commerce and service trades. The vast numbers of cadres, particularly leading cadres at various levels, should take the lead in implementing the decisions of the Central Committee and State Council, and should educate their own unemployed children and relatives to be eager to work in collective and individual operations and in the service trades.[81]

A national commercial work conference held in November 1981 continued the liberalizing trend in central policy toward the individual economy by decreeing that individual firms were allowed, by permission of the State Council and Central Committee, to hire up to seven employees.[82]

Central government support of the individual sector continued through 1982, bracketed by the publication in April of the draft version of China's new Constitution, and the promulgation by the Fifth NPC in December of the Constitution in its final form, the fourth since the founding of the PRC. The draft version was the subject of widespread discussion and debate in the press and in mass organizations through the spring and summer of 1982. The public was encouraged to suggest changes, and many of these were actually incorporated into the final version.[83]

The 1982 Constitution was the first in PRC history to use the term "individual economy" to denote a distinct sector in the

ownership structure of the economy, and also the first to affirm its long-term legitimacy within the economic system. In its final form, the relevant article (Article 11) reads, in full:

> The individual economy of urban and rural working people, operated within the limits prescribed by law, is a complement to the socialist public economy. The state protects the lawful rights and interests of the individual economy. The state guides, helps, and supervises the individual economy by exercising administrative control.[84]

The new Constitution said nothing about the eventual elimination or collectivization of the individual economy, as previous versions had. Also, the stipulation that individual labourers must "not exploit others" was removed. Thus the hiring of labour was neither prohibited nor limited to any particular number. Rather, the details of this and other aspects of individual operations were left to "the limits prescribed by law," as well as the administrative levers of the state.

There was only one change between the draft and the final form. In the draft version, the second paragraph read: "The state guides, helps, and supervises the individual economy by means of administrative measures and <u>through the economic links of the state and collective economy with the individual economy</u>."[85] In its final form, the reference to control through economic links was omitted. The change is a significant reflection of the general tendency of the time, which favoured separating the political and economic functions of the state. The inclusion of the deleted portion would in effect have sanctioned interference with individual firms by enterprises and units in the

publicly-owned sector, something which was being strenuously criticized at the time by central government officials and the centrally-controlled press.

High-Level Support, Low-Level Harassment, 1982-83

That this was emerging as a serious problem in mid and late 1982 is clear from many newspaper articles which appeared around this time. In May 1982, around the time the draft Constitution was ratified, an official of the General Administration of Industry and Commerce gave an interview to Xinhua News Agency on the subject of the individual economy. While there had been a significant increase in the number of self-employed in the cities since 1979, the official said, there was still considerable room for further growth. It was clear where responsibility was being placed: "The official urged local authorities to protect and assist self-employed people, while strengthening administration over their business."[86]

An editorial which appeared in People's Daily around this time was even more explicit. It roundly criticized "some comrades" for believing that the individual economy had already reached "saturation" (baohele):

> ... some localities, under the pretext of stressing economic planning and eliminating criminal activities in the economic sphere, have increased restrictions and created difficulties for many individual peddlers carrying out legitimate activities; either not permitting them to set up stalls, or blocking their supplies, or groundlessly revoking their licenses, etc., to the point where in many places a tendency has emerged for the numbers of people running individual firms to decrease sharply. This trend and its serious implications should not be underestimated.[87]

The article counseled more lenient treatment of individual peddlers, especially those engaged in rural-urban trade: "As long as their activities are permitted in the policy, they should not be discriminated against, and certainly not attacked." Most of them were law-abiding, and only a minority earned "excessive" incomes, which could be appropriated by taxation. It was inevitable that some illegal activities would surface, "but after all these tendencies are not the mainstream, we cannot ... mention ordinary unlawful activities by individual peddlers in the same breath as criminal activities in the economic sphere, still less can we make them the basis for limiting the development of individual peddling."[88]

The distinction reflected a concern with economic crime in the state economy. One manifestation was the emergence of extracurricular economic activity among workers and staff of enterprises. This was targeted in a State Council directive of April 1982; among the activities prohibited was the running of individual enterprises, transport of goods for sale, or buying for resale of agricultural or manufactured products.[89]

The lenient attitude toward individual traders reflected in the Renmin Ribao article cited above was part of a general policy to promote reform and diversification of the commodity distribution system. In June the State Council issued a decision on improving commodity circulation between city and countryside, and in particular on stimulating the movement of manufactured goods to the rural areas. While reaffirming the central role of the basic-level supply and marketing cooperatives, the decision

stressed the necessity to continue expanding the role of collective, individual, and other types of commercial enterprise in rural-urban commodity exchange, encouraging them to adopt flexible methods of operation in commercial transactions.[90] In the same vein, the State Council shortly afterwards issued a series of price reforms which, by permitting relatively flexible pricing for small commercial and service transactions, were supposed to facilitate the operations of individual enterprises.[91]

The liberalizing trend in central policy toward private commerce continued through late 1982 and early 1983. A national work conference on commerce held in November 1982 carried the reforms still further. The major theme of the conference was the necessity to root out persistent "leftist" influences among commercial cadres, one manifestation of which was the denial of the necessity for coexistence of diversified forms of commerce. This attitude created unnecessary obstructions to the development of the collective and individual sectors. The decision of the conference was to further liberalize commercial policies in order to reduce the role of the state-owned sector and stimulate commercial exchange.[92]

Among the policies adopted was to allow rural producers and private itinerant peddlers to carry out long-distance trade--both wholesale and retail. In addition, more outlets for agricultural sideline products were to be set up in the cities under either collective or individual ownership. The conference also decided that it was necessary to adjust the proportion of commerce,

catering, and services handled by the state-owned sector in order to increase the involvement of collective and individual enterprises. The proportion of agricultural sideline products purchased by state-run commerce and supply-and-marketing co-ops (SMCs) was to be reduced from 80 percent to 70 percent and these units' share of retail trade was to be reduced from 80 to 60 percent. The ideal proportion of state-run units in urban catering and service trades was set at 30 percent, while in the countryside, aside from the activities of the SMCs, catering and services were to be "basically" in the hands of individual and collective enterprises. Furthermore, state-run commercial units were instructed to support collective and individual commercial, catering, and service enterprises by providing them with the necessary supplies and raw materials and by giving them guidance in business operations.[93]

In the wake of these reforms of the last half of 1982, the Chinese press carried many articles supporting the liberalizing measures. They stressed the necessity for flexibility and diversification, including further expansion of the individual sector. Many of these articles contained harsh criticism of local authorities for obstructing individual operations; they cited example after example of hard-working entrepreneurs enriching both themselves and society. A common theme were businesses which, on the verge of shutting down because of encounters with local officialdom, were saved by intervention from higher-level authorities.[94]

This general approach was exemplified by the publicity surrounding the 11th Congress of the Communist Youth League, held in Beijing at the end of December. Five of the delegates were young self-employed entrepreneurs. During the congress they made a well-publicized visit to several young individual entrepreneurs in Beijing, accompanied by one of the city's vice-mayors.[95] They also had an interview with an official from the General Administration of Industry and Commerce, who promised continued support for the individual sector. He admitted that, because of "leftist" ideological influences, there was a tendency in many localities to create difficulties for individual firms: "As soon as some people see individual workers making money, their eyes get red [i.e. they get jealous], they think this is outrageous, so they arbitrarily charge fees, and create obstructions to limit the development of the individual economy." But the official affirmed that, as far as the central government was concerned, the individual economy had not yet reached its limits and still had great potential for development.[96]

Such signals of continued high-level support for the growth of the individual economy were obviously sorely needed. The very serious problems being encountered by individual entrepreneurs in their efforts to make a living continued to make headlines in the national and local press in the early part of 1983. In January, a signed letter on the front page of Renmin Ribao, from an official of the Shandong provincial Administration of Industry and Commerce, described the difficulties that individual firms were encountering in the provincial capital of Jinan, at the

hands of wholesale departments and various local authorities. It was accompanied by an editorial which reiterated that "the party's policy concerning the existence and development of individual economy is very explicit"; the number of individual firms was still too small, and every effort should be made to increase it.[97]

Articles and commentaries like this appeared almost daily. The headline of an article in one of the specialized newpapers on economics, Zhongguo Caimao Bao, summed up the general view of the problem: "The basic reason for the relatively slow development of individual economy in Beijing Municipality is because the 'left' ideology has not been completely eliminated."[98] In the early months of 1983 many localities, including Shanghai and Tianjin, did liberalize their local regulations concerning the operations of individual firms.[99] But around the same time, new measures introduced in Beijing municipality to tighten administrative controls seemingly heralded the beginnings of a new trend.[100]

State Council Regulations, Early 1983

One method adopted by the State Council to counter this apparent inconsistency was to pass several sets of new regulations which spelled out more clearly the limits, rights, and responsibilities of all parties concerned.

On February 5, a new set of regulations appeared governing the operations of urban and rural markets and fairs. This measure was aimed at promoting the spread of markets in city and countryside, but was even more preoccupied with maintaining

market order. The markets were placed under the supervision of the Administration for Industry and Commerce, with local "grass-roots market control committees" to take charge of their day-to-day operations. Various forms of state, collective and individual enterprises could participate in the markets, but care was to be taken that state commercial departments continue to "use economic means to regulate commodity supply and demand, control prices, and enable state commerce to play its leading economic role over fair trade." There were all sorts of provisions about what could and could not be sold; fortune-telling was particularly forbidden, as were street performances "detrimental to public morals, decadent and savage, terroristic and injurious to the performers ... and which corrupt socialist spiritual civilization." A particularly alarming clause warned against "persons who raid market control departments or jointly attack and beat up market control personnel and tax personnel, who pass themselves off as market control personnel or tax personnel to extort or swindle ..." On the whole, the tone of these regulations leaned more toward policing than lenience.[101]

On the other hand, in April, the State Council promulgated a new set of regulations on urban individual business, supplementary to those passed in July 1981. Their general thrust was to broaden the scope of permissible business activities (thus officially acknowledging many already-existing but technically still illegal forms of business) while at the same time safeguarding the rights of individual entrepreneurs against interference by local agencies or other enterprises. Changes

included the sanctioning of long-distance trade using motorized vehicles and boats, allowing unemployed urban residents to move to small towns to do business while retaining their city registration, a clearer definition of the structure and role of individual workers' associations, clarification of what constitutes legitimate taxation, and clarification of lines of bureaucratic responsibility.[102]

Perhaps the most significant clause was an affirmation of the legal rights of the self-employed against interference by government cadres:

> The legitimate rights and interests of individual industrial and commercial firms are protected by the state according to law, and no department or unit may infringe upon them. Against those who infringe upon their legal rights and interests, the enterprise may make a complaint to the local or higher-level people's government, or bring suits to the people's courts.

Other related measures also seemed to reflect an apparent trend toward institutionalization and legal guarantees. The same day the supplementary regulations were passed, the State Council also issued new regulations on urban cooperatives which, among other measures, sanctioned a recent phenomenon: the formation by groups of individual entrepreneurs of cooperatives which, although similar in scope and form to individual businesses, were not governed by the same regulations: "With the implementation of the Party's policy of invigorating the economy and with the thriving of the urban and rural economies, a new situation has emerged in many places where urban individual industrialists and businessmen, job-waiting youth and otherwise unoccupied people have entered into voluntary association to engage in cooperative

industry and commerce." The tone of this legislation was supportive; it noted the "positive role" played by the individual economy since the Third Plenum, and stated that the new regulations were intended not to suppress but to "guide and promote the development of this form of cooperative undertakings ..."[103]

The publication of all of these measures was accompanied by press reports lauding the positive contributions of the self-employed to the economy and hailing what a Renmin Ribao headline on February 8 called the "great prospects for the individual economy."[104] But at the same time there were already disquieting signs that at least some of the concerns of local authorities were based in fact, and reflected a growing recognition of the necessity to curb many illegal practices which were emerging under the guise of legitimate individual enterprise. As early as March 1983, in apparent opposition to the prevalent liberalizing trend in other localities, the Beijing municipal government issued a set of directives designed to tighten control over individual operations. While at the outset affirming support of the individual economy, the bulk of these "measures" were actually strongly-worded reminders of existing rules regarding licensing, price control, quality control, etc., with harsh warnings against "insubordination" and flouting of existing regulations.[105] A few months later, similar measures were instituted nationwide.

Summer-Fall 1983 Crackdown

On May 20, barely a month after the State Council passed the liberal supplementary regulations on individual businesses, the same body issued a circular on strengthening price and market controls in commerce which initiated what amounted to a crackdown on unregulated private business activities. Published in Renmin Ribao on May 25, the circular contained admonitions to state-run units, but concentrated on irregularities in the collective and individual sectors. These included operating in unauthorized locations, operating without a license, unauthorized wholesaling in restricted commodities, adulteration and substitution of products, and tax evasion. The latter had obviously become a critical problem: "It is essential to keep pace with the rapid development among urban and rural collective enterprises and among individual merchants and vendors, improve methods in tax collection, plug all loopholes and safeguard state revenues." The circular highlighted the role of individual workers' associations: "Groups of individual workers that meet the necessary conditions must gradually set up organizations according to trades, and organize their members to study, make known their needs, protect the legal interests of their members, supervise them in implementing the relevant state policies and regulations, and cooperate with tax departments in collecting taxes and with commodity price departments in controlling commodity prices."[106]

Implementing the circular, stringent crackdowns on individual businesses were reported in many localities, continuing through the summer and autumn of 1983. In Shanghai, the authorities

> ... acted in unison from 23 to 25 June to improve market order and clamp down on unlicensed peddlers and those who fraudulently purchased state-controlled commodities and stole and sold public property. All districts handled more than 2,500 violations, clamped down on 15 illegal markets, ... and investigated and detained a number of hoodlums who extorted money and beat up people at village fairs.[107]

Around the same time, the national and local media came out with a spate of reports supporting the circular and reporting on violations by individual vendors, all very different in tone from the coverage only a few months earlier. Where previously the stress had been on developing the individual economy and wiping out "leftist" influences which led to harrassment of individual firms by local cadres and agencies, now they emphasized "management." A Jingji Ribao (Economic Daily) article in June exemplified the new, harsher tone. It noted the recent proliferation of unlicensed operations, and various shady business practices by private sellers (including assaulting market management personnel):

> These unlawful practices disturb the market, cause prices to rise, damage our planned economy, harm the consumers' [interests] and endanger public security. The masses are extremely resentful of this, and they vehemently demand increased market management and demand a ban of uncertified peddlers and all types of illegal activity.[108]

Reports stressed that this crackdown was aimed solely at those who were breaking the law, and that legitimate individual businesses in fact welcomed the new regulations:

> Some cadres and people interviewed ... thought that we must uphold the policy to protect and support the legitimate business operations by individual industrial and commercial households. Illegal business operations are curbed in order to protect legitimate business operations and to promote more healthy development of individual inudstry and commerce. Therefore, efforts to tighten control over this area will be supported by individual industrialists and businessmen.[109]

The general message was that despite the new prohibitions, there was still a place for law-abiding individual businesses and that unemployed young people should have no fears about going into business. As if to underline this point, in August a much-publicized one-week conference was held in Beijing for "advanced representatives" of the individual and collective sectors. They were welcomed to the capital by a panoply of central leaders, including Party General Secretary Hu Yaobang and Vice-Premier Wan Li. Hu told the gathering:

> Some outworn concepts that still prevail in today's society have hampered our progress. Public opinion is still not very clear about some standards of right and wrong. For instance, who is and who is not respectable? ... It is widely said that workers in state-owned enterprises are respectable, that workers in collective enterprises are less respectable, and that self-employed workers are unrespectable and will have a hard time finding friends ... Will the comrades gathered here please pass on this message when you go home, namely, that the comrade of the Party Central Committee has mentioned that the many workers in the collective and individual economy have contributed their share to making China wealthy and powerful and making the people's life more convenient without requesting assistance from the state. The Party Central Committee extends its respects and comfort to them.[110]

But Hu was also very clear on who the "unrespectable" types were: "Those who are unrespectable go after comfort, avoid hard work and violate labour discipline. The most unrespectable are those who violate law and discipline."

The reassuring words of the "comrade of the Party Central Committee" notwithstanding, the last few months of 1983 were disturbing ones for the self-employed. Although primarily focused on ideology rather than economic policy, the emergence of the short-lived spiritual pollution campaign in October must have sent shivers down a few already jittery spines with its stern rhetoric reminiscent of the cultural revolution.[111] For example, an article in Jingji Ribao on November 15 discussed in puritanical tones the special temptations facing commercial workers:

> They hear with their own ears and see with their own eyes and live all the year round in bright and colourful places where commodities are exchanged, where people eat, drink and have fun. While they have earlier and more contact with progressive and healthy things, they are also infected earlier by backward and foul things.[112]

Moreover, "dealing with materials and money every day, seeing people buy this and that and eat and drink and seek pleasure after work, [they] develop more easily a habit of comparing what they eat and what they wear and coveting money." To counter these temptations, the article said, "the focus of the commercial departments' opposition to spiritual pollution is opposing the 'money is everything' ideology and opposing the pursuit of the rotten lifestyle of the bourgeoisie."

The spiritual pollution campaign coincided with a national crackdown on economic crime around the end of 1983, instituted by the central government but executed by local authorities. It did not neglect the individual economy. In an address to provincial, municipal and autonomous region industrial and commercial

administrators at a conference in November Ren Zhonglin, the head of the General Administration of Industry and Commerce, "stressed that there must be a plan and management must be strengthened for the development of individual industry and commerce." While the situation was generally good, special attention was to be placed on a few urgent problems, including the unbalanced sectoral development of the individual economy (especially the neglect of repairs and service trades); the inadequacy of present management procedures and systems to combat speculation and other illegal activities; the phenomenon of cadres and workers who, through family members, were using their positions to engage in business for personal gain; and the large numbers of unlicensed vendors in the cities, many of whom were buying up and immediately reselling goods in short supply, setting up stalls in unauthorized locations, and using "pressure tactics" with customers.[113]

The theme was reiterated at the local level as well. At a meeting of local cadres in Guangzhou in December, the remarks of a provincial Administration of Industry and Commerce official reflected the change over the past several months in official attitudes toward the individual sector:

> It is known that the traders engaged in individual ... business operations throughout our province constitute an important force for opening up channels for city-countryside interchanges. The problem now is to strengthen control, protect legal business activities and suppress illegal activities in order to safeguard the interests of the consumers.[114]

For individual firms, the primary focus of the anti-crime campaign turned out to be tax evasion, particularly when it was revealed by tax authorities that in 1982 only about one-third of

the total amount of tax payable by individual businesses was actually turned over to the state. On October 8, the State Council and Ministry of Finance issued a circular simply requiring individual businesses to pay taxes according to the existing laws. On top of crackdowns on illicit activities, local tax agencies throughout the country carried out drives in which individual businesses were required to report their earnings over the previous several years, on the basis of which their taxes were reassessed. At the same time, amidst much discussion in specialized finance and trade journals, methods of assessment and collection were improved in an effort to upgrade efficiency in tax collection.[115]

Renewed Support, 1984

By early 1984, the concern with spiritual pollution had faded, as those leaders opposed to the campaign turned their attention to more pressing issues of economic reform, particularly much-needed reform of urban enterprises. At the same time there came yet another apparent reversal in central policies affecting the individual economy. A key Central Committee document (Document No. 1) was discussed in the press beginning in January, although the full text was not published, at least in the general-circulation press, until June.[116]

Document No. 1 encouraged rural residents to abandon agriculture in favour of opening up commercial and service businesses in villages, small cities and market towns. It also

reaffirmed the general thrust of the post-1978 rural reforms, including the responsibility system, and also reaffirmed the central government's encouragement to farmers to "get rich."

On March 9, the State Council further clarified this policy by passing regulations supporting the development of individual enterprise in the countryside, in industry, handicrafts, commerce, catering, services, and transport. Rural residents were permitted to move to towns to operate stalls or shops, with the necessary permission from local authorities, as long as they could supply their own grain. They were also permitted to carry out long-distance transport between city and countryside, and engage in wholesaling. They were allowed to hire up to two assistants and, in skilled trades, five apprentices.[117]

The reassurances were carried still further in March with the publication of an editorial in Renmin Ribao which stated baldly, "our policy is a policy of making people prosperous," and encouraging some to get rich first as a model to others.[118] An article on the subject which appeared in a Guangzhou newspaper the following August noted that "some young comrades have pointed out: Since we are encouraging some people to prosper ahead of others, individual economy households, specialized households, and 10,000-yuan households have sprung up like bamboo shoots after a spring rain at this opportunity." The article attacked the "leftist" idea of egalitarianism, noting that

> ... "cutting the [capitalist] tail" can only lead to common poverty ... Because of the differences among various localities and people ... common prosperity does not mean simultaneous or the same degree of prosperity for all of them. ... Allowing some people to prosper first and promoting

> the development of social production with the addition of state and collective supports will help the others prosper so that the gap between them will be gradually narrowed.[119]

By the early months of 1984, the impact of Document No. 1 was being felt in various parts of the country, and the press was again featuring glowing reports on the growth of the individual economy and criticisms of "left"-inspired discrimination.[120] In Guangzhou, many of the controls on individual businesses were liberalized in February.[121] By the summer and fall, discussions of the economy and economic reform--and of the individual economy in particular--had again adopted the liberal tone of early 1983. A major article by Xu Dixin exemplified the new atmosphere. Xu argued that

> Some people complain that in certain localities there is still obstruction to the development of individual economy. The phenomena of rejecting, making things difficult for, discriminating against, and attacking normal activities of individual economy have occurred from time to time. ... All this violates stipulations contained in the constitution of the state and party policy. This can be regarded as obstruction to the prosperity of our national economy! Various relevant departments should implement the policy of the central authorities. Proceeding from supporting the development of individual economy, they should adopt a positive attitude toward it, and create conditions to make things convenient for it rather than restricting it arbitrarily.[122]

Xu also mentioned the theme of "common prosperity," and related suppression of individual business to the "repetition of the past mistake of 'common poverty' of the 'gang of four,' which sabotaged productive forces." He warned of the political dangers of cutting off this newly-opened avenue of employment:

> This is not only an economic problem, but also a political problem. Just think, if the number of unemployed youths increases year after year, and if a great number of youths are unable to make a living, can we ensure a political situation of stability and unity?[123]

The culmination of the renewed liberalization reflected in Xu's remarks was the promulgation in October, by the Third Plenum of the 12th Central Committee, of a sweeping decision on urban economic reform. Among the many extensive changes proposed for urban industry and commerce was a promise to:

> ... remove obstacles in the way of the collective economy and individual economy in cities and rural towns and create conditions for their development and give them the protection of the law. We should promote individual economy particularly in those economic fields mainly based on labour services and where decentralized operation is suitable. Meanwhile, we should, on the basis of voluntary participation and mutual benefit, extensively encourage diverse and flexible forms of co-operative management and economic association among the state, collective, and individual sectors of the economy ... It is our long-term policy and the need of socialist development to promote diversified economic forms and various methods of operation simultaneously ... Far from undermining China's socialist economic system, the new policy will help consolidate and develop it.[124]

The reform decision encapsulated the views of the central leadership on the development of the individual economy and on its future place in the overall structure of China's economy.

Conclusion

Thus concludes the account of central policy affecting the China's urban individual economy as it developed from 1978 to 1984. Certain themes have become apparent: persistent tensions between centre and localities and between higher- and lower-level agencies and officials over the treatment of the individual economy; the lack of consistency even within central policy as it responded to shifts in predominant concerns of the top leadership (and shifts in the balance of power among those leaders); the resulting lack of political security for individual en-

trepreneurs; tensions between the need to promote individual enterprise and the need to control its irregularities and excesses. All of these will be discussed in more detail in the chapters that follow. What should be emphasized here is the overwhelming importance of shifts and trends in central policy to the lives of individual entrepreneurs themselves, and ultimately to what is generally called the "appropriate development" of the individual economy.

Notes

1. See Jill Barrett, "What's New in China's New Constitution?", Review of Socialist Law 9 (April 1983), pp. 308-9.

2. Quoted in Chengzhen Feinongye Geti Jingji Fagui Xuanbian (Selected Laws and Regulations on Urban Non-agricultural Individual Economy) (Beijing: Gongren Chubanshe, 1982) (hereafter, Fagui Xuanbian), p. 4. For an English translation, see Peking Review, 24 January 1975, p. 14.

3. Quoted in ibid., p. 5.

4. Apparently first uttered in 1962; see Willy Kraus, Economic Development and Social Change in the People's Republic of China (New York: Springer-Verlag, 1982), p. 378, n. 35.

5. For an account of the conflicts among policy-makers underlying this shift, see Dorothy J. Solinger, "Marxism and the Market in Socialist China: The Reforms of 1979-1980 in Context," in State and Society in Contemporary China, ed. Victor Nee and David Mozingo (Ithaca: Cornell University Press, 1983), especially pp. 214-219. According to Solinger (p. 214), "In mid-1978 the official position shifted from near total reliance on planning to an admission of some market principles into economic management."

6. See Dorothy J. Solinger, Chinese Business Under Socialism: The Politics of Domestic Commerce 1949-1980 (hereafter cited as CBUS) (Berkeley: University of California Press, 1984); she notes (p. 258) that "... the markets did not begin to operate again on a wide scale until about a year later." In Hua Guofeng's report to the 5th NPC in February 1978 he included limited marketing as part of rural economic policy.

7. See Solinger, "Marxism and the Market," pp. 215-217.

8. See Hu Qiaomu, "Anzhao Jingji Guilu Banshi, Jiakuai Shixian Sige Xiandaihua" (Operate According to Economic Laws, Speed Up the Realization of the Four Modernizations), Renmin Ribao, 6 October 1978, pp. 1-3. The English translation used here is Hu Chiao-mu (Hu Qiaomu), "Observe Economic Laws, Speed up the Four Modernizations," Peking Review, nos. 45, 46, 47 (1978): 7-11; 15-23; 13-21.

9. Ibid., no. 45, p. 8.

10. Ibid.

11. Ibid., p. 10.

12. Ibid., no. 46, p. 22.

13. "Communique of the Third Plenary Session of the 11th Central Committee of The Communist Party of China," Peking Review, No. 52 (December 29, 1978), p. 7.

14. Ibid., p. 10.

15. Ibid., p. 11.

16. Ibid.

17. Ibid., pp. 14-15.

18. For an account of this process, which took place through 1980, see Jurgen Domes, The Government and Politics of the PRC: A Time of Transition (Boulder: Westview Press, 1985), pp. 173-7.

19. See Domes, pp. 200-202. He reports (p. 202) that "through 1979, it was ordered that a total of 561 projects, mostly in basic and heavy industries, be stopped or delayed, and implementation of 330 of them really ceased."

20. See Elizabeth J. Perry and Christine Wong, eds., The Political Economy of Reform in Post-Mao China (Cambridge: Council on East Asian Studies, Harvard University, 1985), pp. 10-21; K. C. Yeh, "Macroeconomic Changes in the Chinese Economy During the Readjustment," The China Quarterly, no. 100 (December 1984), pp. 696-8; and Domes, pp. 204-5.

21. See "State Council Issues Regulations on Socialist Competition," Beijing Xinhua Radio, 29 October 1980, in FBIS, 30 October 1980, pp. L12-15.

22. "Li Xiannian ... Tingqu Quanguo Shangye Juzhang Zuotanhui Huibao Shi Zhichu, Genju Shehui Xuyao Dali Fazhan Hezuo Shangye Fuwuye" (Li Xiannian ... Listening to the Report of the National Conference of Heads of Commercial Bureaus Advocates the Widespread Development of Collective Commerce and Services According to the Needs of Society), Renmin Ribao, 9 August 1979.

23. See Chengzhen Fei Nongye Geti Jingji Fagui Xuanbian (Selected Laws and Regulations on Urban Non-Agricultural Individual Economy) (hereafter cited as Fagui Xuanbian) (Beijing: Gongren Chubanshe, 1982), p. 114-5.

24. "Wei Geti Fuwuye Kaifang Ludeng" (Give the Green Light to Individual Services), Renmin Ribao, 14 September 1979.

25. See Domes, p. 170.

26. "Comrade Ye Jianying's Speech", Beijing Review, no. 40 (5 October 1979), p. 9.

27. Ibid., p. 12.

28. Ibid., p. 17. Precisely this theory, of course--that the relations of production are determined by the level of development of the productive forces and not by superstructural or other factors--was being revived as the theoretical cornerstone for arguments justifying the existence of the individual economy and other "backward" economic forms.

29. Ibid., p. 18.

30. Ibid., p. 23.

31. See Xinhua News Bulletin (Hong Kong), October 9, 1979, pp. 6-7. (Hereafter cited as XNB.)

32. See Chapter 4 below for a detailed discussion of these regulations.

33. John Philip Emerson, "The Labor Force of China, 1957-80," in China Under the Four Modernizations, Part 1 (Washington: Joint Economic Committee, Congress of the United States, 1982), pp. 252-3.

34. One very visible example in 1979 was the proliferation of cooperative "educated youth photography groups" (zhiqing zhaoxiang zu) which sprang up at all the scenic spots and famous landmarks of China, consisting of perhaps eight or ten unemployed young people who pooled their resources to buy equipment and set up booths for taking photographs of Chinese tourists; for a small fee they would mail the prints directly to the customers' home.

35. "Fazhan Shangye he Fuwuye" (Develop Commerce and Services), Renmin Ribao, 14 June 1979.

36. See "Guangkai Jiuye Menlu Bixu Gaibian Laodong Guanli Zhidu; Xue Muqiao Tongzhi Jiu Chengzhen Laodong Jiuye Wenti Fabiao Tanhua" (Opening Avenues of Employment Requires Changes in the System of Labour Management: Comrade Xue Muqiao Publishes Remarks on the Problem of Urban Labour Employment), Renmin Ribao, 20 July 1979.

37. See "Wan Li Addresses Central Committee Labour Conference," Beijing Xinhua Radio, 12 August 1980, translated in FBIS, 13 August 1980, p. L5.

38. Ibid., p. L6.

39. "Role of Individual Economy", Beijing Xinhua Radio, 12 August 1980, translated in FBIS, 13 August 1980, p. L7.

40. See Feng Lanrui and Zhao Lukuan, "Urban Unemployment in China," Social Sciences in China, no. 3 (March 1982), p. 136.

41. Feng and Zhao, p. 137.

42. "Quanguo Laodong Jiuye Gongzuo Huiyi Tichu Xin Fangzhen" (National Labour and Employment Work Conference Proposes New Guiding Principles), Zhongguo Qingnian Bao, 14 August 1980.

43. "Role of Individual Economy." This is actually the official State Statistical Bureau figure for year-end 1979; see State Statistical Bureau of the PRC, Statistical Yearbook of China 1985 (Hong Kong: Economic Information & Agency, 1985), p. 213.

44. See "Fangkuan Zhengce Shidang Fazhan Chengzhen Geti Gongshangye" (Relax Policies and Appropriately Develop Urban Individual Industry and Commerce), Renmin Ribao, 21 August 1980.

45. See Beijing Ribao, 18, 22, and 29 August; 1, 5, 8, 15, 19, 22, 26, and 29 September, 1980.

46. See, for example: Cai Beihua, "Lun Geti Jingji" (On Individual Economy), Shehui Kexue (Social Science), no. 6 (1980), pp. 12-16; Lin Hongqiao et. al., "Zhenque Renshi he Duidai Chengzhen Geti Shangye Fuwuye" (Correctly Understand and Handle Individual Commerce and Services), Shehui Kexue Jikan (Social Science Extracts), no. 6 (1980), pp. 62-66; Sun Min, "Shilun Woguo de Geti Jingji" (Tentative Discussion of Our Country's Individual Economy"), Shijian (Practice), no. 12 (1980), pp. 21-24; Fang Sheng and Wang Ruisun, "Zhengque Duidai Chengzhen Geti Jingji" (The Correct Approach to the Urban Individual Economy), Renmin Ribao 28 October 1980.

47. Zhongguo Qingnian Bao, 23 August 1980.

48. See "Zhongguo Renmin Yinghang Guanyu Kuoda Cunkuan Jixi Fanwei ji Geti Daikuan Lilu de Tongzhi" (People's Bank of China Circular on Expanding the Scope of Interest Calculations and Interest Rates for Individual Deposits), in Fazhan Chengzhen Geti Jingji (Develop the Urban Individual Economy) (hereafter, Fazhan) (Beijing: Gongshang Chubanshe, 1981), p. 19.

49. See "Circular on Improving the Payment of Industrial and Commercial Income Tax by Cooperative Stores and Individual Economic Units," in Commercial Laws and Business Regulations of the People's Republic of China, ed. Victor F.S. Sit (Hong Kong: Tai Dao Publishing, 1983), p. 175.

50. See "Diyige Geti Laodongzhe Lianhehui Zai Haerbin Chengli" (First Individual Workers' Association Established in Harbin), Zhongguo Qingnian Bao, 13 September 1980. See Chapter 4 for the function of these associations.

51. See Statistical Yearbook of China 1985, p. 213. Feng and Zhao (p. 138), date this growth spurt to the fourth quarter of 1980.

52. Domes, p. 202. See also Dorothy J. Solinger, "Commerce: The Petty Private Sector and the Three Lines in the Early 1980s," in Three Visions of Chinese Socialism, ed. Dorothy J. Solinger (Boulder: Westview Press, 1984), p. 78.

53. See Sit, Commercial Laws and Business Regulations, pp. 260-2 (pp. 242-3 for the Chinese original.)

54. See "Baohu Hefa Jingying, Daji Toujidaoba he Zousi Huodong" (Protect Legal Operations, Crack Down on Profiteering and Smuggling Activities), Guangming Ribao, 16 January 1981.

55. Yao Yilin, "Report on the Readjustment of the 1981 National Economic Plan and State Revenue and Expenditure (Excerpts)," Beijing Review, no. 11 (16 March 1981), p. 20.

56. See "Yao Yilin Tongzhi Tan Fazhan Geti Shangye" (Comrade Yao Yilin Discusses Developing Individual Commerce), in Fazhan, pp. 6-7.

57. See "Zhao Ziyang Tongzhi Lun Kaipi Jiuye de Xin Menlu" (Comrade Zhao Ziyang Discusses Opening New Paths for Employment), in Fazhan, pp. 4-5.

58. See "Trade Journal on Decrease in Individual Undertakings", translated in FBIS, 1 April 1981, pp. K19-21.

59. See Ma Changshan, "Zongjie 'Zuo' de Jiaoxun, Tiaozheng Suoyouzhi Jiegou--Woguo Xian Jieduan Shengchan Ziliao Suoyouzhi Jiegou Wenti Taolunhui Guandian Zongshu" (Sum Up the Lessons of the 'Left' and Readjust the Structure of Ownership--A Summary of Viewpoints at the Conference on Problems of Structure of Ownership of the Means of Production at our Country's Present Stage), Jingjixue Dongtai (Trends in Economics), no. 6 (1981), p. 10. The proceedings will be discussed in detail in Chapter 7 below.

60. See "On Questions of Party History--Resolution on Certain Questions in the History of Our Party Since the Founding of the People's Republic of China," Beijing Review, no. 27 (6 July 1981), pp. 10-39 (hereafter cited as "Resolution").

61. On the significance of the Sixth Plenum, see David S.G. Goodman, "The Sixth Plenum of the 11th Central Committee of the CCP: Look Back in Anger?", The China Quarterly, no. 87 (September 1981), pp. 519-527.

62. "Resolution", pp. 15-16.

63. Ibid., p. 17.

64. Ibid., p. 19.

65. Ibid., p. 25.

66. Ibid., p. 26.

67. Ibid., p. 28.

68. Ibid., p. 36.

69. Ibid.

70. Ibid., p. 37.

71. See "Guowuyuan Guanyu Chengzhen Feinongye Geti Jingji Ruogan Zhengcexing Guiding" (State Council Policy Regulations on Urban Non-agricultural Individual Economy), in Zhonghua Renmin Gongheguo Guowuyuan Gongbao (People's Republic of China State Council Bulletin), no. 16 (September 25, 1981), pp. 493-5. For an English translation, see Victor F. Sit, ed., Commercial Laws and Business Regulations of the People's Republic of China (Hong Kong: Tai Dao Publishing, 1983), pp. 573-5. Translations here are from the Chinese original (hereafter cited as "Regulations".)

72. "Regulations," p. 493.

73. See "Guojia Laodong Zongju, Guojia Chengjian Zongju, Gonganbu, Gongshang Xingzheng Guanli Zongju Guanyu Jiejue Fazhan Chengzhen Jiti Jingji he Geti Jingji Suoxu Changdi Wenti de Tongzhi" (State General Bureau of Labour, State General Bureau of Urban Construction, Ministry of Public Security, General Administration of Industry and Commerce Circular on Solving the Problem of Premises in the Development of Collective Economy and Individual Economy), in Fazhan, pp. 15-16; "Gongshang Xingzheng Guanli Zongju, Shangyebu, Liangshibu, Gongxiao Hezuo Zongshe, Guojia Wuzi Zongju, Guojia Laodong Zongju Guanyu Dui Chengzhen Geti Gongshangyehu Huoyuan Gongying Deng Wenti de Tongzhi (General Administration of Industry and Commerce, Ministry of Commerce, Ministry of Grain, General Bureau of Supply and Marketing Cooperatives, State General Bureau of Goods and Materials, State General Bureau of Labour Circular on Problems of Materials Supply etc. for Urban Individual Industrial and Commercial Firms), in Fazhan, pp. 13-14. Summaries of these two measures were published in Renmin Ribao on May 14 and July 6 respectively. On the latter, see also "Individual Industrial, Commercial Undertakings Supported," Zhongguo Caimao Bao, 4 July 1981, translated in CEA, 10 September 1981, pp. 15-16.

74. See "Zhonggong Zhongyang, Guowuyuan Guanyu Guangkai Menlu, Gaohuo Jingji, Jiejue Chengzhen Jiuye Wenti de Ruogan Jueding (Zhaiyao)" (Various Decisions by the Central Committee and State Council on Opening Avenues and Stimulating the Economy to Solve The Urban Employment Problem [Excerpts]), in Sit, pp. 544-6; English translation in ibid., pp. 576-9. (Hereafter, "Decision".)

75. See the report in Renmin Ribao, 23 November 1981.

76. "Decision", pp. 544, 576.

77. Ibid.

78. Ibid., pp. 545, 577.

79. Ibid.

80. Ibid.

81. Ibid., pp. 546, 579.

82. Solinger, "Commerce", p. 79; she cites New York Times, 24 November 1981.

83. See Barrett, p. 305: "Over 80 percent of China's population ... are said to have participated in discussion of the Draft, and over 100 amendments were submitted to the National People's Congress, of which 30 were actually incorporated."

84. Beijing Review, no. 52 (27 December 1982), p. 13.

85. Beijing Review, no. 19 (10 May 1982), p. 32; emphasis added.

86. See "Official Urges Increasing Number of Urban Self-Employed Workers," Xinhua News Bulletin (Hong Kong), 28 May 1982, p. 12. The report said that the number of self-employed workers had multiplied 6.2 times between 1978 and the end of 1981, for a total of 830,000 firms employing 1.01 million people, more than 200,000 of whom were "urban young people."

87. "Geti Shangfan de Zuoyong Bu Neng Hushi" (The Role of Individual Peddlers Cannot be Overlooked), Renmin Ribao, 24 July 1982.

88. Ibid.

89. See Guowuyuan Guanyu Zhizhi Qiye Zhigong Congshi Bu Zhengdang Jingji Huodong Mouqu Ewai Shouru Wenti de Tongzhi (State Council Directive on the Problem of Preventing Workers and Staff of Enterprises From Engaging in Improper Economic Activities and Earning Outside Income) (Beijing: Falu Chubanshe 1982), p. 2. This directive was issued in April 1982.

90. See "Guowuyuan Zuochu 'Guanyu Shutong Chengxiang Shangpin Liutong Qudao Kuoda Gongyepin Xiaxiang de Jueding'" (State Council Issues 'Decision on Dredging the Commodity Circulation Channels Between City and Countryside and Expanding the Flow of Manufactured Goods to the Villages') Renmin Ribao, 22 June 1982.

91. See Zhongguo Caimao Bao, 24 August 1982, for the new regulations, and 28 August for an explanation.

92. See Renmin Ribao, 11 November 1982.

93. Ibid.

94. See, for example, Guangming Ribao, December 6, 10, 20, 23, 28, 1982 for specific cases, and December 7, 12, 16, 18, 22, 25, 1982 for articles in support of private long-distance trade, handing over of small state-run units to individual operators, private bookstores and movie theatres in the countryside, etc.

95. See "Tuan Shiyi Da Daibiao Zhong Geti Qingnian de Yici Huodong: Zoufang Beijing Shi Qingnian Geti Jingyingzhe" (One Activity for Self-Employed Youths Among 11th Youth League Congress Delegates: Visit to Young Individual Operators in Beijing), Zhongguo Qingnian Bao, 25 December 1982.

96. "Fazhan Geti Jingji, Guli Zimou Zhiye (Develop Individual Economy, Encourage Self-created Employment), Zhongguo Qingnian Bao, 31 December 1982. See also "Congshi Geti Laodong Liguo Limin Liji: Tuan Shiyi Da Wuwei Geti Laodongzhe Daibiao Gei Ben Shi Qingnian Zuo Baogao" (Engaging in Individual Labour Benefits the Country, Benefits the People, Benefits Oneself: Five Self-employed Delegates to Youth League 11th Congress Make Report to Beijing Youth), Beijing Ribao, 31 December 1982; and "Self-Employed Young People Discuss Future at Youth League Congress," Xinhua News Bulletin (Hong Kong), 23 December 1982, pp. 10-11.

97. See "Renmin Ribao on Developing Individual Economy," translated in CEA, 31 January 1983, pp. 20-21.

98. Translated in CEA, 1 February 1983, pp. 68-70.

99. See "Policy on Individual Industry, Commerce Eased in Tianjin", translated in CEA, 3 February 1983, pp. 12-13; "Shanghai Issues Regulations on Individual Economy," translated in CEA, 19 May 1983, pp. 38-39.

100. See "Measures to Strengthen [Control of] Individual Economy Taken in Beijing," translated in CEA, 16 June 1983, pp. 51-3.

101. See "Regulations on the Administration of Fair Trade in the Urban and Rural Areas," in Selected Laws and Regulations of the People's Republic of China Concerning Industrial and Commercial Administration (Chinese title: Zhonghua Renmin Gonghequo Gongshang Xingzheng Guanli Fagui Xuanbian) (Beijing: The China Industrial and Commercial Management Press, 1984), Chinese original pp. 115-122, English translation pp. 317-330.

102. See "Provisions Supplementary to 'Some Policy Provisions of the State Council on Urban Non-agricultural Individual Economy'", in ibid., pp. 111-114 for Chinese original, 311-316 for English translation. See also Guangming Ribao, 25 April 1983.

103. See "Provisions of the State Council on Co-operative Businesses by Urban Labourers," in ibid., Chinese original pp. 101-105, English translation pp. 297-303.

104. Translated in CEA, 28 February 1983, pp. 111-112.

105. See "Municipal Government Adopts 10 Measures to Strengthen Individual Industry and Commerce," Beijing Ribao, 12 March 1983, translated in CEA, 16 June 1983, pp. 51-53.

106. "Guowuyuan Fachu Tongzhi Yaoqiu Gedi Jiaqiang Shichang he Wujia Guanli" (State Council Issues Circular Requiring Every Locality to Strengthen Market and Price Management), Renmin Ribao, 25 May 1983; English translation in Summary of World Broadcasts (SWB), 27 May 1983, pp. BII/3-5.

107. "Shanghai Implements Circular on Market Order", CEA 27 July 1983, p. 121. See also "Tianjin Deals Blows at Lawless Persons in Markets," translated in CEA, 28 June 1983; and "Sichuan Forum on Strengthening Market Controls", CEA, 27 July 1983, p. 119.

108. "Unlicensed Businesses and On-the-Spot Selling Must be Banned According to the Law," Jingji Ribao, 28 June 1983, translated in CEA, 1 September 1983, pp. 102-3.

109. "Xinhua Views Regulation of Business Households," Beijing Xinhua Radio, 1 July 1983, translated in CEA, 27 July 1983, pp. 151-2.

110. "Hu Yaobang Supports Self-Employed Labourers," translated in SWB, 2 September 1983, pp. BII6-7; see also Renmin Ribao, 24, 29, 30, 31 August 1983 for reports of the conference.

111. See Stuart S. Schram, "'Economics in Command?' Ideology and Policy Since the Third Plenum 1978-84," The China Quarterly, no. 99 (1984), pp. 437-448, for a discussion of the issues involved. The campaign, championed especially by propaganda chief Deng Liqun, attacked the concepts of Marxist humanism and "socialist alienation" being discussed by such writers as Wang Ruoshi and Zhou Yang, but it was also seemingly an excuse for anyone opposed to the recent reform mood to strike back. Says Schram (p. 439), "Many cadres and activists in villages and neighbourhoods, who had been disgruntled for years as a result of the fading of the old ideals of revolutionary purity, and the penetration of foreign influences, took out their resentment in harassment, persecution, and intimidation of all those who, in dress or behaviour, displayed signs of corruption by foreign

ways." By November this repressive behaviour was being criticized by more liberal central leaders such as Hu Yaobang. Nevertheless, according to Schram, "the whole political climate in China was dominated by a leftist wind" around the turn of the year. By early 1984, the economy had been declared out of bounds to the campaign.

112. "Commerce Must Resist, Eliminate Spiritual Pollution," Jingji Ribao, 15 November 1983, translated in CEA, 14 March 1984, pp. 45-6.

113. See "To Develop Individual Industry and Commerce We Must Have a Plan ...," Jingji Ribao, 23 November 1983; translated in CEA, 17 February 1984, pp. 99-101.

114. See "Individual Sector in Economy", Nanfang Ribao, 16 December 1983, translated in CEA, 27 February 1984, pp. 73-4.

115. See "Zhonghua Renmin Gongheguo Caizhengbu Shuifa Zongju Guanyu Geti Gonshangyehu Bixu Yifa Na Shui de Tonggao" (PRC Finance Ministry General Bureau of Taxation Circular on the Necessity for Individual Industrial and Commercial Enterprises to Pay Taxes According to the Law), Zhonghua Renmin Gongheguo Guowuyuan Gongbao, 20 December 1983, p. 1039. On the campaign's accomplishments, see Sui Zongzheng, "Chabu Shuishou Meiyou Guotou, Getihu Jixu Fazhan" (Investigation and Filling-in of Taxes Has Not Gone Too Far, Individual Enterprises Continue to Develop), Caizheng (Finance), no. 7 (1984), pp. 34-5. A more detailed discussion appears in Chapter 4 below.

116. See Renmin Ribao, 23, 26 January 1984. The full text is in Renmin Ribao, 12 June 1984. The document was dated January 1.

117. See "State Council Regulations on Individual Businesses", SWB, 13 March 1984, pp. BII/15. Previously rural individual enterprises had been covered "in principle" under the regulations for urban businesses.

118. See Schram, pp. 453-4.

119. "Policy of Allowing Some People to Prosper First Defended," Yangcheng Wanbao, 8 August 1984, translated in CEA, 19 December 1984, pp. 4-6.

120. See, for example (on Hunan) "Flourishing Individual Industrial, Commercial Enterprises," Renmin Ribao, 18 February 1984, translated in CEA, 19 July 1984; "Liaoning: Commentary on Supporting Self-Employed Workers," Liaoning provincial radio, translated in CEA, 25 May 1984, pp. 110-111; and (on Ningxia), "Development of Individual Economy in Small Cities and Towns," Ningxia Ribao, 19 April 1984, translated in CEA, 29 June 1984, pp. 29-31.

121. See "Liberation of Controls over Individual Commercial Units," Yangcheng Wanbao, 3 February 1984, translated in CEA, 29 June 1984.

122. "Correct View of Individual Economy Stressed," Jingji Ribao, 9 August 1984, translated in CEA, 5 October 1984, p. 2.

123. Ibid., p. 5.

124. "Decision on Reform of Economic Structure", China Daily, 23 October 1984, p. 11.

CHAPTER IV

ADMINISTRATION AND REGULATION OF THE INDIVIDUAL ECONOMY

Introduction

The previous chapter outlined the development of central policy toward the individual sector between 1978 and 1984. This chapter describes the way this policy was put into operation, focusing especially on regulations and procedures for administration and control as they existed at the end of 1984. The topics covered include the laws and regulations governing the urban individual sector, the bureaucracies and cadres that oversee it, the administrative procedures individual operators must follow, the forms of taxation to which they are liable and the methods of tax collection, and other kinds of controls which fall into the loose category of "market management." Several tendencies become apparent: lack of consistency between central regulations and local implementation, diffusion of responsibility, limited control over the actions of local cadres, and a general lack of constancy in the treatment of individual businesses, swinging between the two extremes of support and policing. The result from the point of view of the authorities was unsatisfactory growth in the individual sector and emergence of malpractices by cadres and proprietors alike. From the point of view of the operators, an environment of extreme insecurity has developed which both limits their actions and causes them to be preoccupied with securing short-term profits by any means available.

Laws and Regulations

Despite the new emphasis on rule by law which has pervaded Chinese economic and social life since the late 1970s, the concept has taken only tenuous hold. This is evident in the ambiguous legal status of the individual economy and has been one of the sources of the many problems that have beset its development since 1978. At the same time this ambiguity has also been a source of flexibility and the ability to incorporate actual experience when new regulations are formulated.

This section concerns general rules for the individual sector, and the relationship between central and local legislation. The sector is regulated by a whole raft of central and local legislation, regulations, decisions, and decrees.[1] The basic legal framework is contained in the Constitution, a set of regulations passed by the State Council in July 1981, and a set of supplementary regulations passed by the same body in April 1983. Added to this are regulations promulgated by provincial-level and local governments, by the national-level General Administration of Industry and Commerce and its branches at all levels of government, and by various agencies responsible for such matters as taxation, commodity prices, banking, urban planning and civic appearance, and public security.

Yet throughout the period under discussion, the dense legal net surrounding the individual economy contained some very large

loopholes and inconsistencies, and it consistently failed to keep up with actual practice in different localities. As an article in early 1983 charged,

> ... all this is not enough, there are still confused, scattered, over-elaborate, even mutually-conflicting tendencies. ... If we put policy toward the individual economy on a legal basis, and fix it so that it doesn't change for a long period, we might get rid of the misgivings of individual firms and mobilize their enthusiasm. At the same time, economic law is the norm for economic life, the yardstick of economic activity, if we have a law for the individual economy, this will give people laws they can rely on, rules they can follow, and this will bring the individual economy into the orbit of the legal system.[2]

Even by the end of 1984, such a situation still had not been achieved.

Since Chapter 3 has already described the relevant sections of the state Constitution, this section will touch upon it only briefly before summarizing the other two major pieces of central legislation governing the activities of the urban individual sector--the State Council regulations of 1981, and the supplementary regulations of 1983. These documents lay down the general rules as formulated by the central government. It should be noted however, that in the day-to-day operations of individual businesses, these central regulations matter hardly at all when compared to regulations and procedural rules formulated by local governments and administrative authorities. Perhaps even more important, however, is how these rules are interpreted and enforced by the local cadres.

The Constitution

As we have seen, China's Constitution has undergone several revisions since 1949. It often reads more like a statement of the limits of the theoretically possible than a description of what actually exists. Nevertheless, as far as the individual economy is concerned, the most recent version, passed in 1982, at least guarantees in principle that its continued existence will be permitted.

The first Constitution, promulgated in 1954, was a statement of the goals and methods of the socialist transition. It listed the four existing forms of ownership: state ownership (or "ownership by the whole people"), ownership by cooperatives or collectives; ownership by individual workers; and capitalist ownership. Article Nine summarized the legal status of individual ownership: "The state, in accordance with the law, protects the right of ownership of the means of production of handicraft workers and other non-agricultural individual labourers." It went on to state, however, that while the state will "lead and help individual handicrafts workers and other non-agricultural individual labourers to improve their operations, it will also encourage them to voluntarily organize production cooperatives and supply-and-marketing cooperatives."[3] As described in Chapter 2, this occurred far more quickly than the Constitution suggested.

In the 1975 Constitution, promulgated at the tail end of the Cultural Revolution period after the individual economy had basically been eliminated, Article Five was altered to read: "Ownership of the means of production ... at the present stage mainly consists of two types: socialist ownership by the whole people and socialist collective ownership by the working masses." It further stated that

> ... the state permits non-agricultural individual labourers, under the unified arrangement of urban street organizations and production brigades of rural people's communes, to carry on individual labour which is within the sphere of what is permitted by law and which does not exploit others. At the same time, we must guide them step by step down the road to socialist collectivization.[4]

In the third Constitution, passed in 1978 after the death of Mao and the fall of the Gang of Four, but under the Chairmanship of Hua Guofeng, the relevant article remained virtually unchanged. Individual labour was permitted, but it was still assumed to be a transitory phenomenon. The fourth Constitution of December 1982, still in force at the end of the period under study, was the first to use the term "individual economy" and to affirm its long-term legitimacy as a distinct sector of the Chinese economy. It stated that

> The individual economy of urban and rural working people, operated within the limits prescribed by law, is a complement to the socialist public economy. The state protects the lawful rights and interests of the individual economy.
>
> The state, through administrative control, guides, helps, and supervises the individual economy.[5]

Provisional Regulations, 1979 to July 1981

From 1979 until the promulgation of the State Council regulations of 1981, the individual economy was governed by an evolving body of rules passed by local governments on the basis of general principles laid down by central authorities, chiefly the newly-revived General Administration of Industry and Commerce (GAIC).[6] As early as the summer of 1980, officials of that agency were giving interviews to the press which contained straightforward answers to questions about eligibility, licensing, etc. In an August 1980 column in the Youth League newspaper Zhongguo Qingnian Bao, two officials of the GAIC said that the overall guiding principle was that any business could be approved for individual operation provided the applicant was qualified and there was a demand for the business which the state-owned and collective sector could not fully meet.[7]

They listed various kinds of permissible occupations, including repair and service businesses, catering outlets (especially desirable were people who could make traditional local snacks), commercial trades, handicrafts and arts, transport of goods and passengers, building construction and maintenance, and hotels. Young people waiting for job assignments, or any unemployed people with urban registration, were welcome to apply to open businesses, as were skilled retirees. The latter could go into business on their own or in partnership with their unemployed children, or take on young apprentices. Asked whether individual firms were limited to one person, the authors said the

policy had been relaxed in this area, that businesses could be opened by one person, a married couple or pair of siblings, or a whole family. Skilled workers could take on one or two apprentices. In trades with high capital requirements, partnerships could be approved.

Forms of operation could include stalls or shops in the front rooms of private homes; stationary, itinerant, or door-to-door operations; retail or consignment sales, and rural-urban transport. Skilled applicants could be permitted to engage in itinerant service trades in places other than their home town. "Overall," the article said, "we must support their characteristics of dispersion, liveliness, diversity, and convenience to the masses." If the business wasn't going well, operators were allowed the "freedom of choice" to change trades or otherwise alter their business. The article also gave instructions for applying for business permits. It made the point that self-employed youths would have equal opportunities in military service and educational advancement. They were also encouraged to form associations according to trades, and to set up Party or Youth League organizations. They were reassured that "self-employed youths are also workers. As long as they don't speculate, don't exploit others, and don't violate government regulations, they won't be left with a historical blemish (lishi wudian)."[8]

Local regulations issued in many localities beginning in January 1980 show a high degree of conformity with the above principles. But there were also inconsistencies. Beijing, for

example, initially did not allow individually-operated restaurants. In Shanghai catering trades were permitted but not encouraged in large numbers because of the problems of ensuring sanitary conditions. In some places, (such as Hebei), it was forbidden to hire employees, while in others (such as Tianjin) it was allowed in certain cases. Beijing permitted both unemployed youths and retired workers to engage in individual operations, but directed the licensing agencies to be more lenient in approving licenses for the former than the latter (except in cases of real economic hardship), and also to be more lenient toward applications in badly-needed trades. These local regulations gave the appearance of improvisation; basic-level cadres were directed to carry out surveys and report their findings back to local administrative authorities, who would incorporate the feedback into further refinements of policy.[9]

State Council Regulations, July 1981

Thus by mid-1981 the individual economy was regulated by rules drafted and revised at the local level according to central guidelines, but incorporating local conditions and experience. The new national regulations codified the general principles governing the operations of the individual economy, leaving the specifics to be worked out as before by lower-level governments and administrative agencies. In general, city-level regulatory agencies were given the task of devising and implementing licensing and taxation procedures, approving contracts for employees and apprentices, and overseeing the allocation of

facilities and supplies. Provincial-level governments[10] were charged with developing plans for the implementation of central policy (including the educations of cadres), and for formulating detailed regulations in accordance with local conditions.

The regulations contained eighteen clauses.[11] After a lengthy introduction stating the government's basic attitude (quoted in Chapter 3 above), the individual economy was defined to include "various kinds of individually-operated small-scale handicraft, retail commerce, food and drink, service, repair, non-mechanized transport, building renovation, etc. enterprises operated by the urban non-agricultural population." The second clause specifically encouraged unemployed young people to open businesses in trades "which are required by the masses and which state-run and collective enterprises perform inadequately or not at all." State-run and collective units were permitted to lease outlets "suited to dispersed management" to individuals or otherwise place them under individual management. The groups allowed to open individual businesses were specified in Clause 4; they included unemployed young or "middle-aged" people with valid urban registration, and retired workers with appropriate skills or experience, especially if they could train apprentices. It stipulated that applications must first be approved by street committees before the necessary permits were issued by local branches of the Administration of Industry and Commerce. Non-licensed operations were prohibited. Any significant changes had to be registered with the appropriate authorities.

The fifth clause stated that although individual firms were normally operated by individuals or families, when necessary they could take on up to two "helpers" and five apprentices, with permission from the appropriate authorities. Employees and apprentices had to be given contracts (approved by the local Administration of Industry and Commerce) stipulating rights and obligations on either side, terms of employment, etc.

Local governments and agencies were directed in clause 6 to actively assist in providing premises for individual businesses. The next section listed the permitted forms of operation: processing of materials from outside suppliers; "self-production, self-marketing" (zichan zixiao); commission sales; retail sales in shops and stalls; street peddling, etc. It also permitted rural-to-urban transport and sales of produce and agricultural sideline products, but wholesaling was specifically forbidden. Clause 8 stated that individual businesses were not to be discriminated against in allocation of materials and supplies. The next section concerned prices and fees: commodities purchased from state and collective wholesale outlets were to be sold at state-regulated prices, as were products made from materials obtained from state suppliers. Other commodities were to be sold at prices set either by individual operators' associations or by negotiation. The tenth clause authorized bank loans, and the eleventh permitted tax reductions in trades which were in particularly short supply, and authorized tax exemptions in certain cases.

Clause 12 guaranteed that "legitimate activities, legal profits and property" were protected by the state, and that no legal operations could "be disrupted by any department or unit; no approved outlet ... may be appropriated by any other unit; no goods or materials ... may be arbitrarily cut off." Furthermore, it stipulated that "no department or unit may for any reason charge arbitrary fees" apart from normal taxes and management fees.

The social and political status of the self-employed was addressed in Clause 13; young people were to be treated without discrimination in regard to military service and educational advancement, individual operators were allowed to establish social insurance funds and retirement schemes, and seniority was to be calculated from the day the enterprise license was approved. Clause 14 sanctioned the formation of associations "according to occupation or trade" which would serve the members, provide a forum for the exchange of experience and upgrading of skills, and transmit state policies. The associations were placed under the supervision of branches of the Administration of Industry and Commerce.

Individual operators were directed in Clause 15 to abide by regulations and "accept supervision from the masses." Profiteering, tax evasion, adulteration of products, and price manipulation were prohibited, and known "profiteers" or "undisciplined criminal elements" were barred from engaging in individual operations. Punishments were to suit the severity of the crime. Clause 16 stated that the regulations also applied

"in principle" to rural non-agricultural individual operations. The seventeenth clause directed provincial-level governments to investigate and research the situation of the individual economy in their area, educate cadres, and develop overall plans before implementing detailed policies: "They must avoid rushing headlong into action and abandoning their leadership role." In the final clause provincial-level governments were directed to formulate detailed regulations and procedures "in accordance with actual local conditions."

Around the same time, various central agencies issued directives regarding two crucial issues: allocation of operating premises and supply of materials for individual firms. In May, the national Bureau of Labour, Bureau of Urban Construction, Ministry of Public Security, and General Administration of Industry and Commerce issued a joint circular on operating premises for new collectives and individual firms. It directed local agencies to designate suitable locations for markets and for shops and stalls. It suggested renting out unused civil defence facilities and ground floor commercial space in newly-built residential developments. Streetfront locations which had originally been shops and were later converted to warehouses or residences "must if possible be vacated and rented out" to collectives and individual firms, and the present residents be given suitable housing in exchange. In areas that were designated for redevelopment, land could be rented out for temporary shops and stalls, as long as the new tenants agreed to vacate when the space was required for construction.[12]

In July, a joint circular on materials supply for individual firms was issued by the General Administration of Industry and Commerce, the Ministries of Commerce and Grain, and the national Bureaus of Supply and Marketing Cooperatives, Goods and Materials, and Labour. The document acknowledged that individual firms had been discriminated against, and directed local agencies to "enthusiastically" supply them with needed goods and raw materials, at the same wholesale prices charged to state and collective enterprises. Minimum wholesale transactions were to be decreased to accommodate the needs of these small enterprises. Rationed goods such as oil and grain were to be allocated without prejudice, on the basis of need and availability. Extra-plan grain and oil could be sold at negotiated prices. Where goods were not available in sufficient quantities from state suppliers, individual firms were allowed to buy them on the open market.

The circular also addressed the problem of "arbitrary" fees; individually-operated market stalls should only be charged a small service fee, and without specific approval from local governments, "no unit may unilaterally collect additional fees which increase the burden of individual firms." Local agencies were directed to coordinate their "leadership and management" of the individual economy, and at the same time individual firms who enjoyed the privilege of state wholesale prices were instructed to obey regulations regarding prices, taxes, and market order.[13]

After the summer of 1981 when these regulations were issued, the urban individual sector grew rapidly. Developments at the local level soon outstripped the central regulations, and individual operators and administrative cadres were forced to improvise. This had unfortunate consequences; cadre harrassment and abuses were common, as were infringements by the operators. At the same time, central authorities were complaining that the individual economy was not developing quickly enough, and in press reports it was clear that they blamed restrictive regulations at the local level. Given the ambiguous state of the law and the fragmentation of responsibility, it was not surprising that local agencies and cadres who might not fully support the central policy were able to establish regulations and procedures which contradicted its spirit.

In an interview on this subject published in October 1982, an official of the General Administration for Industry and Commerce blamed "the sluggish development of the individual economy ... during the last six months" mainly on lingering "leftist" ideology, which, he charged,

> ... has resulted in the adoption of a series of discriminatory and restrictive measures. In some places, applications for ... business permits have to be approved by a number of separate units. Some areas, overly concerned about the neatness and uniformity in the appearance of the cities, have subjected individual households to harassment and forced them to relocate. Some areas compel individual households to suspend operations by limiting or cutting off their supply of commodities. Some individual households have been subjected to revocation of their business permits. Other areas resort to ingenious means to impose fees and fines. Unless a stop is put to such practices, it will be difficult to continuously and adequately develop the individual economy in the urban and rural areas.[14]

Reflecting growing concern about "excessive" incomes in the individual sector, the official said that "so long as there is no infringement of policy, no engagement in speculative and improper practices, and no illegitimate source of income," profitable businesses should be encouraged. He advocated strengthening the role of administrative agencies in implementing central policies, in an effort to overcome undesirable tendencies.

By early 1983, some localities such as Tianjin and Shanghai attempted to deal with these problems by passing regulations clarifying the status of the individual economy, in some cases explicitly lifting past prohibitions. Tianjin eased regulations on rural-urban trade, on purchase and resale of waste and secondhand goods, and on the kinds of general merchandise that individual businesses could sell. The scope of permissible activities in rural areas was expanded. Shanghai also liberalised its policy toward rural enterprises, including permitting handicraft production using motorized machinery, and enteprises with one or two helpers and no more than five apprentices.[15]

Supplementary State Council Regulations April 1983

In April 1983 the State Council issued a set of supplementary regulations intended to clarify, expand upon, and revise the existing central regulations, bringing them into line with recent developments in various localities. They were formulated, according to the prologue, "in the light of some problems concerning individual industry and commerce that have

appeared in the implementation of the [1981] Regulations in various places."[16] The main thrust of these measures was to clarify and broaden the scope of permissible business activities, and at the same time safeguard the rights of individual entrepreneurs against interference by local agencies and basic-level cadres.

Individual firms were now permitted to use power-operated tools in handicrafts processing and production, and power-operated vehicles and boats for transporting passengers and goods. In the service sector, support services for industry and scientific research were now included along with consumer services.

The new rules also authorized long-distance transport and sale of merchandise, including bulk shipments. Goods authorized for long-distance sales were limited to surplus agricultural and sideline products after the fulfillment of quotas set in state plans, and to third-category industrial goods (i.e. those not included in procurement plans). In addition to commodities purchased from state wholesale departments, individual commercial firms were allowed to purchase and resell industrial goods surplus to manufacturers' plan quotas, as well as industrial goods which fell outside the plan. Local administrative departments were instructed to be as flexible as necessary in defining the scope of permissible operations for individual firms. Commodity prices and fees for services were to be set in accordance with general price control regulations passed the previous August.

The regulations stated that retirees who opened individual firms were still entitled to retirement benefits from their original units, provided they had skills or experience which they could pass onto apprentices, were knowledgeable in traditional skills or trades, or could restore local specialties or products. Ex-convicts or people who had completed labour reform were permitted to operate individual businesses, if they were registered urban residents and had business ability. The new regulations also allowed unemployed young people from cities to retain their urban registration if they opened businesses in small rural towns.

However, urban individual businesses were not allowed to employ people with rural household registration. Enterprises in rural market towns could employ people with rural registration, but such employment would not change their registration, and they would have to supply their own grain. Another clause permitted apprentices to open their own businesses once their term of apprenticeship was finished, or to form cooperatives with other individual operators.

The new rules directed the relevant departments to comply with the central directives issued in 1981 regarding business premises and supplies, stating that "governments at various levels should see to it that the departments concerned effectively implement the provisions in said circulars." Individual firms were now explicitly permitted to open bank accounts, use trademarks, and have chops made for business use.

The function of individual labourers' associations was clarified; they were "mass organizations of individual labourers for self-management" and were instructed to "accept the guidance" of agencies of the Administration of Industry and Commerce. Contrary to the 1981 regulations, this measure stipulated that the associations were to be established in parallel to administrative divisions, and within that structure, to organize groups according to trades. Functionaries of the groups should be chosen from among the ranks, and operating funds derived from fees, with collection methods to be prescribed by the General Administration for Industry and Commerce and the Finance Ministry. Individual operators were also authorized to obtain old-age and medical insurance from insurance companies.

Regarding taxes and other fees, they were "required to pay only tax and specified fees in accordance with state laws and the provisions of [provincial-level] people's governments ... No departments or units may collect other fees from them." Unauthorized fees were strictly forbidden, and the regulations stated that in case of disputes, individual firms "have the right to refuse to pay, or lodge complaints" with the relevant departments. They were also guaranteed legal protection; their "legitimate rights and interests" were "protected by the state according to law, and no department or unit may infringe upon them." The regulations stated that where infringements did occur, "the individual enterprise may lodge a complaint with the local or higher-level people's government, or bring a suit to the People's Court."

For their part, the Administration of Industry and Commerce and its branches at all levels were directed to strengthen administration of the individual economy, to protect legal operations and stamp out illegal ones. The regulations also stipulated that that the GAIC was the agency responsible for the interpretation of specific policy provisions for registration and administration of individual businesses. Its local branches were the only agencies allowed to revoke or cancel business licenses in cases of illegitimate activities. The final clause stated that the supplementary regulations went into effect on the day they were passed, and superseded any previous provisions.

As discussed in the previous chapter, in mid-1983, shortly after these very liberal revisions were passed, the individual economy entered a new phase of strict control and policing, which was eventually followed by a return to more lenient treatment. Throughout these fluctuations, however, central legislation was not altered (although in March 1984 separate legislation was passed governing individual operations in rural areas). It appears that during the period under study comprehensive central legislation simply became less and less relevant as a guide to actual practice.

Guidelines on Hired Labour

One crucial area where central legislation was conspicuous by its absence was the hiring of labour by individual firms. This is a particularly sensitive issue because of its ideological implications.[17] Individual firms were prohibited by law and in

the Constitution from exploiting other people's labour, and in fact this is seen as a key factor in maintaining the distinction between individual economy and capitalism. The theoretical basis of this distinction is discussed in Chapter 7 below.

The available material on this contentious issue leaves the definite impression that, over the period under discussion, there was no clearly articulated central policy on hiring in the individual sector. In principle, individual firms were supposed to be operated by the owners themselves, with only minimal use of hired labour where necessary. In practice, this restriction proved very difficult to enforce, and press reports reveal that many businesses exceeded the stated limits and yet were allowed to continue operating.

Before the 1981 State Council regulations were issued, there was a guideline from the General Industrial-Commercial Administration that no more than three apprentices and two helpers were allowed.[18] Local regulations published in 1980-81 were mostly non-committal on this issue, mentioning that one or two apprentices were permitted but neither sanctioning nor prohibiting the hiring of employees.

The 1981 regulations stipulated that an individual firm could be given permission to hire only one or two "helpers" where necessary, and take on a maximum of five apprentices.[19] Helpers and apprentices could not simply be brought in at will, however; any hiring was subject to the approval of the local Administration of Industry and Commerce, which also had to approve the employment contract stipulating the rights and

responsibilities on either side, as well as terms of employment such as hours of work, duration of the contract, and remuneration. Helpers were to be taken on only in cases of real need (where the labour available within the family was inadequate), and apprentices only where the work was of a sufficiently skilled or technical nature.

According to one Chinese researcher, at a conference of officials of the Administration of Industry and Commerce in the spring of 1982, a decision was made to relax the limit on hiring. This decision was circulated internally in the administrative network, but not published for general circulation. After this decision, while the national regulations were still in effect, in practice the localities were given the flexibility to decide on the limits, based on local circumstances. In some place, seven or eight employees were allowed, in others, ten or more.[20]

Conclusion

As the situation with regulations on hiring would indicate, on the whole it appears that regulations formulated by administrative agencies at both the central and local levels and refined in practice, have been far more important than comprehensive central legislation in determining the form of the individual economy. Even more important has been the manner in which these regulations have been interpreted and enforced by local cadres and agencies. This situation conforms to the letter

of the law, which specifically gives the power for formulating and implementing detailed regulations to local governments and agencies.

The lack of anything more than broad guidelines from the centre, however, has also contributed to the ambiguous legal situation of individual entrepreneurs, and has opened the way for all kinds of abuses by administrators and operators alike. The lack of consistency in rules of operation should not be seen as the cause of these abuses, however, but rather a symptom of problems with the general approach toward the regulation of small private trade. Where this comes out particularly clearly is in administrative structures and procedures, where the tension between the supportive and interventionist roles of the agencies in charge creates complex problems for all concerned. This will be the topic of the next section.

Administration of the Individual Economy

As seen in the preceding sections, control of the individual economy is less a matter of laws than of administrative rules and procedures. As a 1986 legal guide for individual operators describes it,

> Administration and management of individual operations, is administration and management by the state of individual industrial and commercial firms in their production and business activities as well as in their activities in the market economy. It is therefore not the same as administrative leadership and control by the responsible departments in the various industrial, commercial, and agricultural trades and industries, of the economic activities within their respective trades and industries. Nor is it the same as the specialized administration and management of finance, taxation, and commodity prices. It [involves] using methods of administrative intervention (xingzheng ganyu de shouduan),

> in accordance with the basic economic laws of socialism and other objective economic laws, to manage, serve, inspect, and control individual industrial and commercial firms and their productive and business activities; as well as safeguarding legal operations and curbing illegal business activities, waging struggle against behaviour which is harmful to the socialist economic order, and safeguarding production and promoting circulation, in order to uphold the national economic plan and promote the flourishing and healthy development of the market.[21]

The responsibility for this complicated task, and for the overall supervision of the urban individual economy, belongs to a network of agencies called the Administration of Industry and Commerce (gongshang xingzheng guanli bumen, which can be translated literally as Bureau of Industrial and Commercial Administration and Management). This is a bureaucratic network under the direct jurisdiction of the State Council (and not under any of the Ministries), with branches at every administrative level from centre to urban district and below. Since 1978, it has taken on a major supervisory and policing role in economic activities, including control of economic crime.[22]

The Administration of Industry and Commerce (AIC) has a longstanding connection with private enterprise. After 1949 responsibility for administration of the private sector was put in the hands of the Private Enterprise Bureau (Siying Qiye Ju), under the central Finance and Economics Commission; along with the Ministry of Industry and the Trade Ministry, it was responsible for overall economic administration. At the local level, the Bureau of Industry and Bureau of Industry and Commerce were responsible for state and private industry and trade. The local Bureaus of Industry and Commerce were under the joint

jurisdiction of the central Ministry of Trade and the Private Enterprise Bureau. One of their primary responsibilities was administration and control of the private sector. In 1952, the central Private Enterprise Bureau was renamed the Central Adminstration of Industry and Commerce (Zhongyang Gongshang Xingzheng Guanli Bumen) and placed under the jurisdiction of the State Council. At the same time, the responsibilities of the local Bureaus of Industry and Commerce were divided up, with responsibility for the operation of commerce shifting to the Commercial Bureaus under the Ministry of Commerce, while the Bureaus of Industry and Commerce retained administrative control.

Until 1956 the major responsibility of the Industry and Commerce network was controlling the economic power of the private sector while at the same time strengthening and consolidating the hold of the socialist sector in commerce and industry. Specifically charged with overseeing the socialist transformation of private industry and commerce, it was also an important force in the campaigns of the early and mid-1950s to control and restrict the activities of the private sector. It also played the central role in efforts to collectivize individual handicrafts and individual hawkers and peddlers. During the 1950s it was directed by Xu Dixin.

Not surprisingly, after the "high tide" of 1956 the agency fell on hard times. A 1985 textbook on the subject makes this comment:

> In the period from the basic completion of the socialist transformation to the Third Plenum of the 11th Central Committee, although industrial-commercial administration did some important work in clearing up residual problems of socialist transformation, managing urban and rural market trade, cracking down on speculation and profiteering activities, and managing enterprise registration and trademark registration, in the course of its work it also experienced complications.[23]

These "complications" were predictable results of the general shift after 1957 from administrative measures to other more radical means of controlling the economy. The 1985 text quoted above also charges that as their work came to be seen merely as another means of waging class struggle, the role of the administration bureaus became progressively weaker, confined mainly to catching speculators and illegal hawkers. In the midst of the Cultural Revolution, the Central Adminstration of Industry and Commerce was absorbed into the Ministry of Commerce; from a bureau (ju) directly under the State Council it was demoted to a department (chu) under the Commerce Ministry. The corresponding local bodies were mostly eliminated and many of their cadres were sent to the countryside, where their role simply became supervising rural markets and hunting down "speculators and profiteers."[24] Many of the cadres themselves came to see their role purely as a policing one; not only did they seek to control "non-socialist" forms of business, they also suppressed what are now seen as legitimately "socialist" activities as well, doing severe damage to the market economy in the process.[25]

With the post-1978 economic reforms, however, the administrative network has been given new life. In September 1978 the State Administration of Industry and Commerce (Guojia

Gongshang Xingzheng Guanli Ju) was reinstated as a functional bureau under the direct jurisdiction of the State Council.[26] In 1982 when a major reorganization substantially reduced the number of such organizations, the AIC was retained.[27] It has branches at every level of local government from the provincial level (where they are under the direct jurisdiction of the corresponding People's Government) to the county (xian) and urban district (qu). Below the county or urban district level, agencies (paichu jigou) called Offices of Industrial and Commercial Administration (Gongshang Xingzheng Guanli Suo) have been set up. Between 1978 and 1982 the director of the central body was Wei Jinfei; since mid-1982 it has been Ren Zhonglin. In May of 1983 an Individual Economy Department was set up under the direction of Hao Haifeng and an additional deputy director was added in November 1984.[28] As of January 1986, the director of the Individual Economy Department was Wang Zhongming.[29]

The State Administration of Industry and Commerce has been described as the "state organ empowered by the government to carry out control (jiandu) and management (guanli) of industrial and commercial enterprises and market activities." Neither it nor its subordinate agencies is actually engaged in running industrial or commercial enterprises; its general functions are: implementing and executing Party and State economic policies, laws and regulations; researching and drafting laws, decrees, and regulations related to industrial and commercial administration and market management; the actual supervision and policing of industrial and commercial operations; protection of legal

operations and elimination of illegal ones; and "safeguarding the socialist economic order, promoting production, stimulating circulation, [and] ensuring the implementation of the state plan."[30]

Specifically the network is responsible for the following: a) maintaining order in rural and urban markets, including control and supervision of prices and transactions, and the management of urban and rural fairs, industrial products markets, and other specialized kinds of markets such as flea markets; b) organization and administration of enterprise registration for all industrial and commercial enterprises, Chinese-foreign joint enterprises, wholly-owned foreign enterprises and representative offices, and individual enterprises; c) overseeing economic contracts, including contract enforcement, mediation and settlement of disputes, and investigation of violations; d) trademark administration; e) regulation of advertising and supervision of advertising associations and institutes; f) controlling speculation and profiteering; g) control and investigation of illegal economic activities in all enterprises and institutions, and control of "unhealthy tendencies" (bu zheng zhi feng) in commodity circulation; and h) administration of the urban and rural individual economy, including the above functions (licensing, market management, overseeing of contracts, etc.), as well as policy research, and supervision of the individual labourers' associations.[31]

The major areas where administrative authorities impinge upon the workings of the individual economy will be outlined below, along with the problems that can arise in the course of this relationship. Already it should be apparent that potential problems emerge out of the tension between the two major functions of the administrative authorities: on the one hand upholding the central government's commitment to diversifying the market by promoting and supporting the growth of the individual economy and other kinds of market-oriented activities; on the other hand control and policing of those same activities.

To add a further note of complexity, while the AIC network is reponsible for overall supervision, there is another level of administration which cuts across it. This is management by individual trades or industries, called in Chinese guikou guanli. Each individual firm is subject to supervision by state-owned corporations in its own trade or industry, or by the administrative bodies that govern the corporations. So, for example, an individual retail vendor may be under the supervision of its primary wholesale supplier, which is in turn governed by agencies under the Ministry of Commerce, which are also operating retail enterprises that compete with the individual vendors. This arrangement of course opens up numerous areas of potential conflict.

In addition to supervision by the AIC network and organizations or enterprises within particular industries, individual firms are also subject to regulation by numerous other agencies such as banks, tax authorities, public security organs,

agencies in charge of civic appearance, health and sanitation, urban planning, and many others. This further multiplies the possible sources of conflict; especially since there have been many cases where these agencies have apparently usurped the authority of the AIC. The ramifications of this situation will be explored below, after a description of the basic bureaucratic procedures involved in setting up and running an individual business.[32]

Bureaucratic Procedures

First and most important, an operating permit or license must be obtained.[33] Individual firms are not alllowed to do business without one. The license is evidence of the legal legitimacy of the business; without it, the operator cannot open a bank account, obtain loans, pay taxes, or rent premises. The business license must either be displayed or be available on demand.

The procedure for obtaining a license is rather cumbersome. The prospective applicant first has to secure the approval of the neighbourhood office (jiedao banshiju) or residents' committee, then apply to the district branch of the AIC, which eventually issues the permit. This can take several months, although efforts have been made to streamline the procedure after complaints of long delays in processing applications. Temporary or seasonal businesses must also obtain temporary permits. Operators from outside the local area must register in the

locality where they intend to operate, after first obtaining written approval from their local residents' committee or street committee.

In addition to the operating permit, some trades require other kinds of certification. Catering or food businesses have to obtain a permit from the local public health authorities, and the operators themselves have to pass a medical examination. In technical or skilled trades it is necessary to have a certificate from the appropriate agency proving that one has passed the relevant technical tests. In certain businesses, applications must be approved by the local public security bureau (PSB). (Two examples are chop-carvers and private hotels; the former because chops have legal validity as signatures on documents and must be legally registered, the second because information on guests must be available to the PSB.)

Depending on the trade, the licensing process can be unbelievably slow. Toward the end of 1981, for example, someone wanting to open a bicycle repair business in Beijing first had to fill out a registration form and send it to the street office for approval; the street office sent it on the the district AIC office, which then passed it on to the district repair company for their approval; the district repair company then sent the form back to the AIC, which sent it on to the district PSB; if the PSB approved the application, they sent it back to the district AIC, which then sent it to the district office in charge of traffic and civic appearance; that office put their stamp on the application and sent it back to the AIC. Only then could the

AIC endorse the application and issue the license, which they then sent, together with the application form, back to the district PSB, which passed it on to the municipal PSB for the official stamp. After getting back the stamped permit, the district PSB sent it back to the district AIC which then sent a notice to the applicant which he or she had to bring along to pick up their license. The cadres of the AIC were united with the individual operators in believing the procedure had to be simplified.[34]

Once all the necessary certifications are obtained, the business must obtain a legal stamp or chop. An application must be made to the local PSB. There are regulations about the format that must be used, so after the chop is carved by an approved chopmaker at a fee fixed by law, it has to be inspected and registered by the PSB. If it is lost or stolen the loss must be registered and a new one made.

The next step is tax registration. The applicant must take the license and chop to the local tax department to fill out the application and get the chop on file. After tax department approval, the operator is given a tax schedule (na shui shouce). Taxes are paid to the local tax authorities where the business is registered (even if business is transacted in another location). Temporary license holders must also go through this procedure (and are taxed at a higher rate than regular businesses.)

The above are the minimum procedures required to operate an individual enterprise. In addition, if any major change is made in the business, there are procedures that must be followed.[35]

An operator who wants to change from one trade to another first needs approval from the local AIC. Mergers must also be approved by the administrative authorities, then the new firm has to go through the registration procedures and the original ones through procedures for registering closure of a firm. The sale of registered individual businesses must be approved by the industrial-commercial administration; the seller must register the closure of the business and the buyer go through the precedures for registering a newly-opened business. Hiring of employees or apprentices must also be approved by the local industrial-commercial administration authorities, which also approves and registers their employment contracts.

Problems of Administration

Individual operators and critical observers complain that the administrative authorities are too preoccupied with procedures, at the expense of effective supervision or management. The various agencies involved are all quick to criticize, lay down rules, and charge fines, but there is little coordination amongt them, meaning that individual operators are often caught between contradictory policies and conflicting interests. At the same time, since no single agency has effective overall control, it is relatively easy for violations to be overlooked. As one writer described the situation in early 1983:

> In the past ... there was normally management by trades; for example handicrafts were managed by the Second Light Industry Bureau, general merchandise businesses by the state corporations, catering trades by the state catering service companies, etc., while policy questions were normally supervised, researched, and decided by the administrative bureaus for industry and commerce. The present situation is: the administrative bureaus ... are only responsible for making investigations and issuing permits, while the trade organs and neighbourhood offices, public security bureaus, sanitation departments, etc. are responsible for collecting management fees. But when real problems arise with individual businesses, nobody pays attention.[36]

The author noted, for example, that photographers at the Nanjing Yangtze River Bridge and the Lingyin Temple in Hangzhou were boasting about mailing customers blank pieces of paper instead of the photographs they had paid for in advance; "in problems such as these, there is actually no-one in charge." At the same time, however, "some organizations in the state-run and collective economy, far from actively supporting and helping individual firms, are discriminating [against them] in every way possible."

An example of the conflict between different kinds of administration, and the relative powerlessness of the AIC network, occurred in the Yangtze River port of Wuhan at the end of 1983. One of the national newspapers reported in December that in the previous three months more than 500 individual businesses in the city had had their licenses revoked; in many cases their equipment and furniture were seized and stalls dismantled. The authorities responsible for civic appearance and traffic control were behind the raids, despite the fact that 80 percent of the firms involved were licensed operations with fixed locations approved by those same agencies. Although, as the

article noted, State Council policy stated clearly that in cases of illegal activities where licenses must be revoked, the AIC was the only agency with the power to do so, "now anyone can exercise this power." The newspaper report was based on detailed data from cadres of the municipal AIC; apparently they were powerless to do more than alert the press to the situation.[37]

Some localities have dealt with these problems by forming ad hoc bodies for management of the individual economy. Others have developed more comprehensive systems, either giving the AIC network primary responsibility over all aspects of administration, or setting up a management structure which involves the various industries in coordinated management by trades. In many places these structures are complemented by the individual workers' associations or by self-management committees. But judging from criticisms in the press throughout the period under study, a more consistent and comprehensive system was still needed.

Individual Workers' Associations

One element in the administrative structure governing the individual economy which has become increasingly important as time goes on, is the network of individual workers' associations (geti laodongzhe xiehui). These bodies are generally described as "mass organizations for the self-employed," under the control of the AIC network. The legal groundwork for them was laid by the State Council regulations of 1981:

> Self-employed workers may establish self-employed workers' associations (xiehui) or unions (lianhe hui), on a voluntary basis according to occupations or trades. The functions of the associations or unions are: to furnish various services to the members; to exchange experience; to pass on technical skills; to relay and organize the study of party and government policies; to check on and oversee members in conscientiously carrying out state policy regulations; and to represent members' views and needs to the appropriate agencies.
>
> The self-employed workers' associations or unions will be under the leadership of the Administraton of Industry and Commerce, or a bureau designated by the local people's government.[38]

Clearly then, these organizations were originally seen as something akin to the old craft guilds, organized along trade or industry lines. In practice what has developed, however, is a network of bodies organized along geographic administrative divisions, paralleling the organization of the administrative bureaucracy, with branches at every level from street or neighbourhood through urban district and city to (potentially) the national level.

The development of these organizations has been slow and uneven. The country's first, with a membership of over 800, was formed in the Nangang district of Harbin in the summer or fall of 1980. In Shanghai, by contrast, the first such organization (the Kunming Street branch of the Yangpu district association, with about 120 members) did not appear until December 1982. As of April 1983 less than 700 of China's cities and counties had such associations.[39]

The supplementary regulations passed that month by the State Council gave some encouragement to the formation of organizations by clarifying their status and directing that

"people's governments at every level must enthusiastically support" their work. By November 1984, over 2,000 associations had been set up, covering "about 80 percent of China's cities and counties." As of January 1986 they existed in "almost all" of China's counties and in twenty-three provinces.[40]

Through the years there was talk of setting up a national federation of individual workers' associations. In February 1984 an interview with two researchers from the Chinese Academy of Social Sciences in Beijing indicated that discussions were underway. In May 1984 a self-employed delegate to the National People's Congress appealed for a national organization "to coordinate their relations with various quarters and to reflect their views and demands."[41] Xinhua News Agency reported in December 1985 that a meeting was being held in Hangzhou to set up a national federation, and a January 1986 newspaper report said that it would be established "this year."[42]

One handbook on individual operations describes these groups as

> ... mass associations organized voluntarily by individual labourers under the leadership of the Party and state. They are an important item in the organizational system [set up by] the Party and state for the individual economy, the bridge and the tie linking Party and government with the masses of individual workers. Administrative bureaus for industry and commerce at every level, representing the government at the same level, exercise leadership over the individual labourers' associations. ... [The associations] represent and safeguard their members' legal rights and interests. They operate according to the principles of self-education, self-management, voluntary service, and independent responsibility.[43]

A look at their actual functions however, makes it clear that they are far closer to administrative organs than voluntary interest groups. In fact they closely resemble PRC labour unions in their mandate to represent the interests of both workers and the state. At the same time, however, they fulfill many of the functions which the work unit normally handles for regular employees. The handbook quoted above lists the following functions: propagation and implementation of relevant Party and state measures, policies, and laws; educational activities to inculcate principles of socialism, patriotism, and business ethics; selection of model workers and advanced units; organizing technical training, management education, and exchanges of experience; organizing bulk purchase of commodities; transmitting information among the members; providing consulting services; protecting the legal rights and interests of the members; passing on their "legitimate views and correct demands" to the relevant agencies, and actively assisting those agencies in finding solutions; organizing mutual aid activities among the members; organizing welfare and insurance arrangements; coordinating the work of relevant agencies; and arranging joint Party and government activities affecting the individual economy.

The same handbook lists the "rights and obligations" of association members. They have the right to: elect or be elected for leadership positions and vote on issues; discuss, criticize, and make recommendations on the work of the associations; supervise and suggest changes in the work of the leading members;

participate in welfare provisions organized by local associations; and express problems encountered in the course of business and raise demands to be passed on to relevant agencies.

Association members' obligations include: studying and implementing party and state measures, policies, laws, and regulations; continuously raising the level of their service and improving their professional techniques and knowledge; observing business ethics and proper operating procedures, and accepting administration and management by state agencies; observing planning guidelines and mass supervision; doing nothing to harm the interests of the state or consumers; upholding social order and protecting public interests; actively participating in social and politicial activities organized by the government, the party, or the association; abiding by the constitution of the association, implementing its decisions, and paying dues.

Not only are the associations "supervised" by the AIC bureaucracy, many of the leaders of the associations are actually administrative cadres. (In some places the association offices are located on the premises of the AIC.) From the administrators' point of view, this is very advantageous. The presence of a few cadres in leadership positions in the associations, it is argued, strengthens the state's influence over the individual economy, and also facilitates direct communication between individual operators and the cadres in departments concerned with their operations. This facilitates coordination and allows the opinions and needs of the individual operators themselves to be taken into account in the formulation and revision of regulations

and policies. Cadres are not supposed to outnumber the individual operators in leadership positions, and within the association they have equal rank and power. When the first such association (at the urban district level) was founded in Harbin in 1980, its staff included one cadre and five unemployed young people, whose salaries were paid out of membership fees.[44]

From the point of view of self-employed workers, however, the association's administrative role overshadows its advocacy function. In a survey conducted among eighty self-employed young people who participated in the August 1983 conference of "advanced representatives" of the individual economy,[45] all the respondents expressed high hopes for these associations. They expressed the optimistic view that the associations were "the self-employed workers' family and should become the link between individual firms and the state; they should be able to safeguard the individual workers' interests." But they also felt that the associations had yet to live up to their potential:

> At present, although associations have been set up in many places, they have not been able to assume their proper role; some have become subordinate organs of the Administration of Industry and Commerce bureaus, and only cared about collecting dues. They hoped this tendency would be rectified immediately.[46]

If anything, the tendency only strengthened during the period under study, as the complexities of supervising and administering the individual economy increased.

Market Management

Control of the individual economy cuts across another vital area of administration known as market management (shichang guanli). Again, this is largely the responsibility of the AIC network, although it also involves public security bureaus, commodity price bureaus, and local governments. The market management function of the AIC network is a complex one since it has to balance policing functions with the promotion of diversity and "liveliness" in the marketplace; the operative slogan can be translated as "lively but not chaotic, managed but not to death" (huo er bu luan, guan er bu si).

AIC activities which fall into the category of market management include: safeguarding business activities which are permitted by national policy, in line with the principle of encouraging diversification, competition, and commodity circulation; protecting legitimate collective and individual enterprises; upholding state planning (by making sure, for example, that controlled goods don't enter the market); maintaining market order by overseeing prices, quality control, standardization of weights and measures, etc; promoting the implementation of market management regulations through education and propaganda activities; cooperating with relevant agencies to police and eliminate illegal labour practices; dealing harshly with various kinds of exploitative behaviour in the market, and with speculation and profiteering.[47]

As we have seen elsewhere, since the line between legal and illegal activities is so hazily drawn, the administrative authorities must have a great deal of discretion in their dealings with individual firms, especially at the lower levels where they are engaged in the day-to-day tasks of market management. This leaves the way open for all sorts of real or imagined abuses. The dual task of facilitating and promoting private business activities, while at the same time controlling or policing them, makes the relationship between individual operators and market management officials a tense one at best.

While individual operators generally claim that local administrative cadres place too many restrictions on their operations, the cadres themselves complain about the constraints on their ability to operate effectively. The complexity and diversity of the individual economy, the fact that enterprises are so numerous and so widely dispersed (especially in the countryside), means that their resources are spread too thinly. In March 1984, the current Director of the Individual Economy Department of the General Administration of Industry and Commerce, Hao Haifeng, reported that there were 210,000 market management officials in the country to monitor more than 7.5 million private businesses as well as "investigate tax evasion, price manipulation, and other forms of cheating."[48] In January 1986, his successor Wang Zhongming noted that there were only 6,000 cadres in the entire country whose job was specifically to oversee the more than 11.5 million individual enterprises. The state guideline, he said, was one cadre per 50 businesses, but

coverage varied greatly. In Guangdong each cadre had to oversee an average of 470 enterprises; the ratio in the northeastern provinces was 1:100. The department planned to add another 100,000 employees in 1986 in order to improve market management.[49]

Price Control

One of the most critical aspects of market management, especially where individual firms are concerned, is price control. It has proven very difficult, with such a large number of tiny firms in the sector, for the state to regulate illegitimate profits or excessive incomes. Opponents of the individual economy have charged that inflation is fueled by lack of control over the prices charged by individual firms. When crackdowns have occurred, for example in the last half of 1983, uncontrolled prices have been a prime target.

Until recently, prices for consumer goods in China were set almost wholly by the state.[50] One important feature of the post-1978 reforms was reorganization of the commodity price system. In November 1979 prices of certain non-staple food items were raised in order to cut out state subsidies to urban consumers, and the prices of more than 10,000 other consumer items were unfrozen and allowed to fluctuate with market conditions. A year later, they were frozen again in an effort to curb inflation.[51]

The 1981 State Council regulations for the individual economy decreed that individual firms selling commodities purchased from state and collective wholesale outlets, and products made from materials supplied by state suppliers, had to do so at state-regulated prices. Other commodities were to be sold at prevailing market prices. Fees for services were to be set either by individual operators' associations or negotiated between supplier and customer.[52]

In July 1982 the State Council issued provisional price regulations which were designed to promote price stability and to decentralize a certain degree of responsibility for the setting of prices.[53] For individual firms, commodities purchased from state-run or collective enterprises were still to be sold according to state retail prices. For products made from materials purchased from state suppliers, individual producers could now set prices according to quality, guided by prices charged by state enterprises for the same kinds of products. Businesses dealing in miscellaneous commodities (xiao shangpin) with negotiated prices (including agricultural sideline products, light industrial products, textiles, and handicrafts products) could set their own prices in line with state regulations. For services, repairs, and non-mechanized transport, fees would continue to be set either by the associations or by negotiation.

Although commodity price authorities had overall responsibility for monitoring prices, one stated objective of these regulations was to give the specialized state corporations a greater role in controlling prices charged by individual firms

and other burgeoning forms of non-state enterprise. These corporations had the power to carry out price surveys and to alter prices which contravened regulations or policy.

City and county governments and commodity price authorities could also use whatever means they wished to keep track of prices, including recruiting voluntary groups of price surveyors. Regulatory agencies were warned that while management should be strict, they should also take into account the role of market mechanisms in determining prices. Individual firms were specifically warned that they had to accept supervision from commodity price authorities, administrative authorities, and specialized corporations, and that anyone violating the regulations could be fined or have their license revoked.

In September 1982, central authorities lifted price controls on 160 miscellaneous commodities. Nine months later prices for another 350 products were deregulated.[54]

Decentralization led to some conflicting tendencies. In Guangdong, for example, in February 1984 the provincial AIC relaxed controls on goods sold by individual firms, decreeing that the selling prices for the 510 products which had been freed from price controls, whether procured locally or not, were to be set by the enterprise "based on the procurement price plus expenses," and that "no limitation should be set on the prices." Shops in different places were permitted to charge different prices reflecting their own wholesale price, as well as variations in quality. Charges for repairs and services were also permitted to reflect differences in quality.[55]

Around the same time, Beijing passed a measure that seemed to point in the opposite direction, decreeing that most commodity prices should be set by the relevant state corporation, or by the individual vendor with the state corporation's approval. Prices for goods which had been freed from control could be set by the vendor, but should be in line with prices for the same commodities in state-run stores. Fees for repairs and tailoring were also supposed to follow the standard of state-run enterprises. Prices charged by individual firms were to be closely watched by commodity price authorities, administrative authorities, specialized state corporations, and individual workers' associations, and violators were to be punished according to the severity of the crime.[56]

In general, for commodities freed from price controls, prices were set by the vendor to reflect wholesale prices, operating costs, and a realistic profit margin, as well as conditions of supply and demand. This was especially tricky for the self-employed, since they had to compete with generally low prices in state-run enterprises while still generating adequate income to cover their expenses. Hence a common observation by consumers was that while private stores, restaurants, and service enterprises as well as private vendors in the free markets tended to charge higher prices, they also provided better service, more convenient hours, and higher-quality products (often dealing in products and services that couldn't be found in state-run or

collective enterprises). Price differentials also depended on location; prices could vary among different cities, or even among different markets in the same city.[57]

Especially with long-distance trade, price differentials began to play a large role in shaping the activities of individual vendors. Private traders could earn a substantial living from the fact that, for example, fashion clothing could be bought cheap in Guangzhou and sold dear in Beijing or Harbin, even when transportation costs were taken into account.[58] Of course, such practices also left them open to charges of speculation or profiteering.

Violations of Market Order

With price deregulation, the rapid proliferation of individual enterprises and free markets, and the inadequacies of the management system, violations of the letter and spirit of the regulations multiplied. These became of source of great concern and finally, in the spring and summer of 1983, the target of stringent measures to re-establish market order. This section summarizes two articles from the many which appeared in the Chinese press, demonstrating the range of illegal activities and the vehemence of public response.

A report from Guangzhou in May 1982 sums up the kinds of violations that were occurring all over the country (although the temptations were obviously greater in Guangzhou with its proximity to Hong Kong and Macau, and the relative ease of bringing goods over the border.)[59] With five markets housing

more than 800 stalls, 85 percent of which were run by individuals, the range of violations was impressive. 80 percent of the market stalls were selling ready-made dresses, 65-70 percent of which were claimed to be imported. Of those, 65-70 percent were "black-market goods from questionable sources." Some of the "imported" merchandise actually came from the following sources: state-run wholesale outlets; the processing of imported fabrics; foreign trade departments "which originally procured them for export and later turned them over to the domestic market"; special stores for overseas Chinese or foreign trade markets "which illegally sold them for high profits"; coastal smugglers; and traders from Hong Kong. Some of the genuine products were brought in legally (and tax-free) by friends and relatives.

Smuggling was widespread:

> In Dongguan, Zhongshan, Shenzhen, Zhuhai and other coastal areas, the smugglers have set up a series of "relay stations" for smuggled goods to be brought in [and] sold in Guangzhou. Some individually-run stalls are closing early every afternoon so that these individuals can go to the railway stations or visit the hotels to look for prospective sellers from Hong Kong.

In addition, state-run stores which were permitted to wholesale imported goods were selling them illegally to individual vendors; one such enterprise sold 60,000 imported umbrellas and 17,000 pieces of nylon trousers, t-shirts, and windbreakers to private vendors at wholesale prices between October 1981 to March 1982. It was also common for individual vendors to buy merchandise and then sell it in wholesale lots to individual vendors from other parts of the country or province,

who would then resell it at retail prices. Tax evasion had assumed serious proportions, with many unlicensed vendors who paid no taxes at all, and licensed ones who grossly underreported their turnovers. Although vendors were supposed to have price tags on all items, in fact there was much bargaining, and "the difference between the offered and the counteroffered prices is always like the difference between sea and sky." Goods purchased from state-run wholesalers were only sold at the list price if the price was high enough; more often, different prices were quoted to different customers.

The article also complained of "people of diversified background in the markets. ... Some of these people are simply loafers in the society, some are full-time workers now taking some side jobs, and some pay rentals for the use of stalls." (That is, licensed stall operators were subletting their stalls to unlicensed vendors.) All of these problems, the article claimed,

> ... have directly jeopardized the interests of the state and the people and provided good opportunities for unscrupulous elements. It is now high time for these markets to be reorganized. We hope the municipal authorities concerned will carry out a drastic and thorough reorganization so that the vendor stalls selling [manufactured] products will develop in a healthy way.

A June 1983 commentary in Jingji Ribao argued in a similar vein, highlighting two major problem areas: unlicensed operations, and profiteering from illegal purchasing and resale of restricted or scarce goods. It claimed that unlicensed vendors were more numerous than those with licenses, and that private vendors were taking advantage of government subsidies to

buy retail commodities at artificially low prices and then resell them at great profit. In addition, this was not the only report to mention that vendors were not only using high-pressure tactics in buying and selling, they were also assaulting market management personnel who tried to stand in their way. These practices, the article said

> ... disturb the market, cause prices to rise, damage our planned economy, harm the consumers' [interests] and endanger public security. The masses are extremely resentful of this, and they vehemently demand increased market management and demand a ban of [unlicensed] peddlers and all types of illegal activity.[60]

By mid-1983, such violations had become widespread enough, and the feeling against them strong enough, to prompt government action. In May, a State Council circular instructed the localities to institute stringent measures to strengthen market management, in particular to stabilize prices, but also to control unlicensed operators and those practising "speculation and profiteering" (toujidaoba).[61] Most of its provisions were aimed at collective and individual operations. They were instructed to do their business at fixed locations or within designated areas, to display their licenses prominently, and to put price tags on all merchandise. Unlicensed operations were forbidden, as was reselling commodities purchased from retail outlets. Wholesaling by individual and collective firms was curtailed. The circular instructed all enterprises to "hold fast to the socialist orientation," which included not selling adulterated goods, giving short measure, or passing off low-quality goods as high-quality merchandise. Departments in

charge of commodity prices were instructed to set up monitoring systems and hire more inspectors. The circular also called for more coordination among the relevant agencies. Illegal income was to be confiscated if it was not surrendered voluntarily. Stricter enforcement of tax regulations was also urged.

The 1983 crackdown was connected to other developments in the political sphere, discussed in Chapter 3 above, but it also reflected the very real problems and contradictions which had developed in the course of instituting an administrative and management system which was to both encourage and police the emerging individual economy.

Taxation

One of the most crucial areas of state control of the individual economy is taxation. As with other areas where individual firms come into contact with the administrative bureaucracy, taxation has also reflected inconsistencies and tensions in general approach. Apart from the obvious function of collecting state revenues, taxation acts as an economic lever controlling individual operators' incomes while exerting indirect control over the market. Tax collection agencies and their "front line" employees, the tax collectors, also play a direct role in policing individual operators.

Problems with taxation and tax collection illustrate the magnitude and difficulty of the problems involved in the delicate balancing act of simultaneously policing and promoting the individual sector. The stakes are considerable: individual

businesses reportedly paid 4.2 billion yuan in taxes between 1981 and 1984, but this was only a fraction of the amount they should have turned over to the state.[62]

Tax Regulations

Individual operators are required to pay several kinds of taxes, depending on the type of business and on local tax regulations.[63] There are two major forms of business tax: industrial-commercial income tax (gongshang suode shui), with a progressive tax rate based on annual net business income; and business tax (gongshang shui), a straight percentage on the value of production or sales, the exact form and rate of which varies from trade to trade. In some localities or trades these two taxes are combined.[64] There are also management fees (guanli fei) and miscellaneous taxes set by local agencies. In addition, like anyone else in China, individual operators are liable to individual income tax on personal earnings.

Until 1980, individual businesses were governed by highly discriminatory 1963 regulations which set a 14-level progressive tax on business earnings (after costs, expenses, and salaries), ranging from 7 percent on yearly income of 120 yuan or less to 62 percent on income over 1,320 yuan. Those whose income exceeded 1,800 yuan paid an additional surcharge varying from 10 to 40 percent (on income over 5,000 yuan.) The stated intention of these regulations was to restrict the individual economy in favour of the collective economy by making the tax burden on individual firms higher than on collectives or cooperatives.

Thus where an individual firm earning, for example, 900 yuan per year lost 45 percent of it in taxes, a cooperative shop earning the same amount paid only 20 percent, less a discount of 57.5 yuan.[65]

This inequitable tax structure remained in force until October 1980, when the Finance Ministry issued a directive which simplified and effectively lightened the tax burden on individually-owned businesses and small collectives. The new regulations were intended to give official recognition to changes already made by local governments in taxes for cooperative shops, as well as to ease conditions for individual businesses. They did away with the national tax rate for individual enterprises and abolished the surtax. Instead, provincial-level authorities, "bearing local conditions in mind," would set the tax rates, keeping them in line with the the eight-grade progressive tax rate on handicrafts cooperatives. The localities were also instructed to develop their own regulations for tax collection and administration.[66]

The regulations passed by provincial-level authorities show that decentralization led to considerable regional variations in tax rates. Although many localities apparently adopted the eight-grade system, some such as Guangzhou retained the fourteen-grade system, and others such as Guizhou adopted a ten-grade system. For most provinces, the minimum tax rate was 5 to 7 percent, on annual incomes under 300 yuan. The maximum was anywhere from 50 to 80 percent on maximum incomes of 5,000 yuan and above; Liaoning taxed incomes of 5,000 yuan and above at 80

percent, while Shandong extracted a mere 65 percent on earnings above 10,000 yuan. Overall, the tax reform reportedly had the effect of reducing taxes for individual enterprises by an average of 70 percent.[67]

The 1981 State Council regulations stipulated that tax reductions and exemptions could be granted under certain circumstances in order to stimulate individual enterprise in certain high-priority trades and services. Shanghai and Wuhan, for example, both granted such concessions to individual businesses run by unemployed youths.[68]

Further tightening the net, in September 1982 the General Taxation Bureau of the Ministry of Finance passed a regulation requiring all licensed businesses (including individual operations) to register with local tax authorities, and to register any significant changes in operations.[69] New businesses were required to register with the local tax department within thirty days. Those who failed to register risked "criticism and education," and/or were fined up to 500 yuan.

Apart from the industrial-commercial income tax, individual firms also pay various kinds of business taxes (also called industrial-commercial tax) set by central authorities as a straight percentage of turnover. Manufacturing firms pay a "product tax" (chanpin shui) which in a handbook published in 1985 ranged from 3 percent for plywood to 50 percent for grain alcohol. Commercial and service enterprises pay a "business tax" (yingye shui) which ranges from 3 to 10 percent depending on the

trade.[70] The latter is usually collected along with the industrial-commercial income tax or, in the case of retail peddlers, may be collected by wholesale suppliers.[71]

Methods of Tax Collection

From the outset the central finance authorities laid down only the vaguest outlines for tax collection from individual firms, giving local authorities responsibility for developing detailed regulations, and broad discretion in devising procedures for tax collection and administration. This was supposed to ensure that, in keeping with the central government's basic commitment to encouraging the growth of the individual economy, taxation and collection methods would be tailored to local conditions. But instead it created a situation in which local-level tax departments and individual cadres--not all of whom supported the central policy--often abused the discretion given to them to enrich their own coffers or give vent to their prejudices about private enterprise. Even where this did not happen, lack of consistency created confusion about responsibilities and procedures on both sides. This in turn opened the way for massive tax evasion and other kinds of infringement by the individual operators.

In 1981, 1982, and especially 1983, specialized journals and the popular media devoted much space to discussions of problems related to taxation of individual firms. Articles directed at cadres dealt with tax collection procedures, often sharing the experience of particular localities. Popular

articles through the early months of 1983 more often highlighted abuses: discrimination against and harrassment of individual firms, excessive taxation, trumped-up fees, or firms going bankrupt because of excessive tax burdens.

The specialized articles give much insight into methods of tax collection and the variations tried in different places. In one market town in Anhui, for example, taxes for individual businesses were assessed on the basis of annual turnover but paid monthly.[72] In other localities, especially in markets or fairs where individual operators were concentrated, tax collectors made daily rounds; in this way tax collection also became a vehicle for market management. In Beijing three different methods were used, depending on the type and size of business. In trades with relatively stable incomes, there was a fixed rate based on estimated monthly turnover (ding'e dinglu), which combined income tax and operating tax. For businesses whose turnover varied from month to month, tax was charged according to actual turnover as declared by the operator. Businesses with high turnover and high profits, with systematic book-keeping and inventory control, could use the "declare and verify" (shenbao heshi) method, where tax was paid quarterly and at the end of the year the business either paid the deficit or received a rebate for any overpayment.[73]

Interestingly, the complexities of the job evidently created a morale problem amongst tax collectors, dramatized by a 1983 article in one of the specialized journals. In what were supposed to be extracts from his diary, a young tax collector

named "Wandering Firefly" said that although he and his classmates used to think that such work was a "perilous undertaking" (weitu), after three months on the job he had realized it was "not impossibly difficult, nor a 'job without prospects', only a little troublesome ... Compared with other kinds of work, perhaps it affords more opportunities to understand society." He sympathized with vendors who complained about cadre harrassment; in one case he had had to intervene in a dispute between a hot-tempered colleague and some unlicensed hawkers when he feared they would come to blows. He concluded from this experience that too many cadres were not "keeping pace with the times."

"Firefly's" colleagues complained that they were "nameless heroes" looked down on by other cadres, individual operators, and the general public; one of his co-workers who ran into an old classmate on the street while out collecting taxes, told her friend she was doing some shopping. "Firefly" however, preferred to see his job as "revolutionary work" of service to society, and recommended that his colleagues do the same.[74]

As "Wandering Firefly" noted, however, many tax collection cadres were slack about their work, or openly hostile toward individual operators. Moreover, the agencies they worked for often seemed to regard individual businesses merely as a source of extra income. Many such stories were aired in newspapers and radio broadcasts, especially in 1981 and 1982 when the media focus was on promoting the growth of individual firms in the face of apparently strong opposition on the part of many cadres.

For example, an article in a Guangzhou newspaper in June 1982 charged that excessive taxes and fees were a major reason why 30 percent of the individual operations in that city had suspended operations at one time or another. One food store operator with a monthly turnover of 800 yuan was paying 40 yuan per month in taxes, plus 24 yuan for street maintenance, 7.5 yuan for street usage, 15 yuan for street cleaning, 10 yuan for validation of contracts for hired help, plus other charges, for a total of 90 to 100 yuan per month.[75]

By early 1983 the situation was serious enough to warrant mention in the State Council's supplementary regulations, which reiterated that individual firms were "required to pay only tax and the specified fees in accordance with state laws and the provisions of [provincial-level] people's governments ... No departments or units may collect other fees from them." Any fees had to be approved, and governments were instructed to "strictly forbid any unauthorized collection of fees or any unauthorized raising of the standards of fees to be collected." Individual firms were given the right to refuse to pay, or to complain to higher authorities about abuses.[76]

Tax Evasion and Enforcement

On the other hand, inefficiency, lack of coordination, and the hostile attitude of many cadres apparently made it easy for many operators to give in to their inclination to pay less than their share of taxes, or avoid paying altogether. By late 1983 tax evasion appeared to have reached crisis proportions. In

Tianjin, for example, it was reported that of 788 businesses surveyed in late 1983, 558 had evaded taxes totalling about 60,000 yuan over the previous four years. This was more than double the amount actually paid by Tianjin's individual firms during the same period.[77] One tax department in Luoyang (Henan province) found that in August 1982 when it switched from collecting taxes by voluntary payments based on the operators' own accounts, to door-to-door collection based on cadres' assessments, tax revenues increased by more than 400 percent.[78]

Nationally, it was estimated that in 1982 only about one-third of the total amount of tax payable by individual businesses was actually turned over to the state, representing hundreds of millions of yuan in lost revenues.[79]

Although the biggest problem was underreporting of business turnover, in most articles on the subject, the problem of tax evasion and lost revenues was blamed mainly on the inefficiency and inequity of the tax-collection system, rather than simple dishonesty of the part of individual operators. A highly critical April 1981 report from Guangzhou, for example, blamed local tax-collection agencies for "chaotic fee collection, chaotic fines, chaotic tax collection." Neighbourhood authorities arbitrarily raised management fees, which should have been 1 to 5 percent of turnover, to 20 to 30 percent--higher than the actual tax rate. They were also finding all sorts of excuses to charge bogus fines and taxes, which "not only increased the burden of individual firms, it also gave certain people opportunities to fish in troubled waters (hun shui mo yu), [i.e.

take advantage of the chaos to enrich themselves]." Moreover, despite the fact that Guangzhou had the previous year adopted various measures to lighten the tax burden of individual firms, they had not instituted systems for monitoring tax payments, depending instead on the operators' own reports. The authors believed that, under the circumstances, it was not surprising that individual operators were evading taxes when they felt they could get away with it. They were generally disclosing only about 50 percent of their turnover, with some firms underreporting by 70 to 80 percent.[80]

In the summer and autumn of 1983, during the spiritual pollution campaign and the general effort to suppress economic crime and promote market order, a nationwide drive was launched to reorganize and tighten up on tax collection from individual businesses. The circular on strengthening market order issued by the State Council in May (cited above), directed local governments to strengthen administration of tax collection. In October, the State Council and Ministry of Finance issued a joint circular which required individual businesses to pay taxes according to the existing laws. The terse document stated that all individual operators were required to abide by tax policies and regulations, voluntarily accept the supervision and control of state tax agencies, and fulfill their obligations as taxpayers. They were also obliged to register new businesses, closures, and changes in operations according to the September 1982 registration regulations. Businesses employing hired labour or involved in joint operations were required to keep accounts

and make accurate reports to tax authorities, and all individual businesses were urged to keep accounts if they could. In conclusion, the circular pointed out that tax evasion was punishable according to the relevant provisions in the penal code.[81]

Simultaneously, local agencies around the country instituted drives to require individual businesses to report their actual earnings for the current year as the basis for reassessing their taxes. This "investigation and filling-in of taxes" (chabu shui) was relatively mild. Again, specific methods varied from locality to locality; for the most part, the tax authorities were quite lenient toward tax evaders, who were expected to pay up their back taxes but only in extreme cases to pay fines.[82] At the same time, tax authorities were expected to study and improve their methods of tax assessment and collection in an effort to upgrade efficiency, with results reported in the various professional and academic journals.

One popular method was to single out conspicuous cases for thorough investigation and make public examples of them. In Hefei, for instance, where individual businesses had paid a total of 260,850 yuan in taxes from January to October 1983, investigations turned up another 137,774 yuan in unpaid taxes. Most operators paid voluntarily, but many refused, claiming they had already paid the correct amount, based on their reported turnover. Those who resisted were investigated and it was usually found that they owed substantial sums. The tax department found that the use of model cases could cut off these

protests, however. One well-known hawker, known as the "clothes king," refused to pay the assessed amount, and provoked 120 other hawkers on his street to do the same. When the local tax office made it known that in eighteen months of business, the "clothes king" had actually halved his tax bill by underreporting his turnover, he paid up, and his colleagues quickly followed suit.[83]

In Shanghai, the methods were more reminiscent of bygone political campaigns. In August the municipal tax department issued a circular on strengthening tax collection from individual firms. Copies were posted in all the hawker markets, major traffic intersections, and in busy commercial areas. Meetings were called in every district to propogate the guidelines among individual operators and explain national tax policies, to warn against illegal practices, and also, in the words of one report, to "carry out rigorous criticism and education." This reportedly had a "certain effect" on attitudes toward tax payment and tax evasion.

In one Shanghai district, for example, the local tax office and Administration of Industry and Commerce branch organized sixty people to investigate the individual vendors in a local market; after "grasping the basis of the tax evasion situation," they organized a full meeting of all the vendors

> ... to carry out policy education, and motivate the vendors to report on themselves. In the meeting, some vendors wrote confessions of their own tax evasion problems, and some also wrote self-criticisms, declaring that "tax evasion is a violation of national law, from now on I pledge to pay my taxes.[84]

By the end of August, over 90 percent of the individual vendors in the district had confessed in writing to tax evasion amounting to 70,000 yuan on more than 1.6 million yuan of turnover. Several months later the municipal tax department enforced the Finance Ministry measure of October by selected fifteen "model" tax evaders and published their stories for circulation among tax offices in every district and county of the municipality to use in "motivating" individual vendors to pay their taxes.[85]

Nationally it was reported that by the end of the campaign, more than 50 percent of taxes due were actually being collected, as opposed to the previous one-third. With a total business volume in 1983 of 21.09 billion yuan, individual firms should have paid 938 million in taxes; 510 million (55 percent) actually found its way into government coffers.[86]

Early in 1984, however, the renewed liberalization of policies toward market activities turned the tide back against cadres who had been overly tough on individual operators. Newspapers again began to report stories of harassment and corruption. The recognition that perhaps the crackdown had gone too far was reflected in a circular handed down by the General Taxation Bureau in March.[87] It contained some forthright criticism of local cadre behaviour. Although the tax campaign had brought forth some positive results, the circular noted, "in the past few years there have been major changes in the ranks of the cadres. The problem of a few cadres who do not

conscientiously implement tax policies in the course of their work has become quite serious." The litany of criticisms included the following:

> Some cadres, in disregard of policies and regulations, arbitrarily charge taxes and fines; others, in the process of reviewing unpaid taxes, behave as if their word is law, they indiscriminately charge and fine, take their role too seriously, and increase the tax burden of the taxpayers. Some basic-level tax departments exceed the limits of their authority in tax management, deciding without authorization to charge or waive taxes. Some do not pay attention to publicizing tax policies and legislation; their work style is crude, their attitudes are rigid, to the point where without provocation some of them curse, beat up, or tie up (sic.) individual operators, etc. All of this has seriously blunted the enthusiasm of urban and rural individual operators for developing production and diversifying forms of operation, and at the same time has also damaged the reputation of taxation work among the masses. These problems must be treated with great seriousness by tax departments at all levels; [they must] adopt effective measures to remedy them promptly.

The circular called for tax authorities at all levels to tighten the reins on their cadres, especially those operating in rural areas. All cadre violations were to be redressed, all overcharges reimbursed, and where public opposition was vociferous, investigation and rectification were to be conducted "in conformity with the spirit of seeking truth from facts." Cadre education (political and professional) was to be strengthened, in recognition of the fact that there were a lot of new, inexperienced tax collectors. This applied especially to those "working in the front lines." Older and more experienced cadres were encouraged to pass on their professional skills and "even more important, ... their good attitudes, good workstyles, [and] good revolutionary traditions."

The circular also called for greater emphasis on publicity and propaganda, on the grounds that if individual operators knew why and how they were supposed to pay taxes, it would make the job of the cadres easier. The final provision encouraged the use of example cases, illustrating both positive and negative cadre behaviour, to educate the cadres and also to ensure that justice was seen to be done:

> Those with proper ideology and workstyles who carry out policies correctly and fulfill their duties well, must be commended, and the few who are guilty of such problems as corruption or taking bribes, using public office for private gain, extortion or blackmail, or improper workstyles, must undergo harsh criticism and education; serious cases must be dealt with severely, those who should repay must repay, we must discipline those who should be disciplined, even if it means investigating and assigning criminal responsibility, so as to rectify and purify the ranks ...

Thus between 1979 and 1984, the treatment of individual operators in tax regulations came full circle and more, from punitive taxation to liberalization, to stringent crackdown, to renewed leniency. It was an apt illustration of the generally ambivalent treatment of individual firms during that period.

Conclusion

The foregoing review of regulations and administrative procedures affecting the individual economy reveals the persistence of a stubborn problem. During a six-year period when the general thrust of central policy was to promote the development of the individual economy by any means possible, vacillations in policy measures, inconsistent and uncoordinated administration at the local level, the uncontrolled greed of some

local cadres, and a host of other problems, did much to undercut the relatively more liberal intentions of the central policymakers. The result was added insecurity and uncertainty for the individual operators.

The next chapter will examine other aspects of the status of the individual economy in the economic and social structure of the PRC which have reinforced the negative effects of the situation described above. It will go on to look for the cultural and ideological sources of the inconsistent and at times hostile treatment meted out to the individual sector since the founding of the PRC, which has continued even into the unprecedentedly lenient post-1978 period.

Notes

1. On laws and lawmaking, see the "Preface" in Victor F. Sit, Commercial Laws and Business Regulations in the People's Republic of China (Hong Kong: Tai Dao Publishing Co., 1983), pp. II-V. According to Sit, "The documents are sometimes called 'laws', 'regulations', 'measures', and other times ... 'announcements', 'rules', and 'circulars'. The differences between the terms are related to the different authority which promulgated them as well as ... to the varying levels of refinement of the document within the law from which they originated." The power to make law belongs mainly to the Standing Committees of the National People's Congress (NPC) and Communist Party (CCP), while "the State Council is the authority for approving regulations derived from existing laws though it may not always be the agent for their formulation and implementation." Decrees of the Central Committee of the CCP may also have the force of law: "These often appear as broad principles or policy guidelines that the State Council would follow in fabricating regulations for their implementation." In addition, administrative agencies under the State Council (such as the General Adminstration for Industry and Commerce) can pass regulations and administrative measures to implement existing laws and for regulating units under their authority. A common feature of business regulations promulgated by the State Council, is "a common clause that delegates power to local authorities for adopting measures which fit circumstances for local implementation."

2. Wang He, "Shilun Chengzhen Geti Jingji de Falu Diwei" (Preliminary Discussion of the Legal Status of the Urban Individual Economy), Tianjin Shehui Kexue, no. 4 (1983), p. 37.

3. Quoted in Chengzhen Feinongye Geti Jingji Fagui Xuanbian, (Selected Laws and Regulations on Urban Non-agricultural Individual Economy) (hereafter cited as Fagui Xuanbian) (Beijing: Gongren Chubanshe, 1982), p. 3.

4. Quoted in ibid., p. 4.

5. "The Constitution of the People's Republic of China," Beijing Review, no. 52 (27 December 1982), p. 13.

6. Interview with Mr. Jin Shihe, Assistant Director, Economics Research Institute, Jilin Province Academy of Social Sciences, 19 March 1986, Changchun. He said that sometime in 1981 this agency passed internal regulations governing the activities of individual businesses, which would have been passed down to their local-level branches. Prior to that, there was no official central policy, but there were administrative guidelines that were generally known. The functions of this agency are discussed in detail below.

7. "Zhi Zhunbei Congshi Geti Jingying de Qingnian" (For Young People Getting Ready to Open Individual Businesses), Zhongguo Qingnian Bao, 23 August 1980.

8. Ibid.

9. See, "Shanghai Permits Individuals to Engage in Certain Businesses," translated in FBIS, 20 November 1980, pp. O3-4; "Hebei Regulates Individually Operated Enterprises," translated in FBIS, 17 March 1981, pp. R2-5; "Wuhan Issues Provisions on Individual Businesses," translated in CEA, 20 May 1981, pp. 3-6; "Liaoning Issues Regulations on Self-Employment," translated in FBIS, 25 February 1981, p. S1; and Fagui Xuanbian, pp. 93-157 for texts of regulations for Liaoning, Shanghai, Beijing, Tianjin, Heilongjiang, Jiangsu, Gansu, Taiyuan, and Guangzhou, all issued in 1980 and early 1981.

10. That is, the governments of provinces, autonomous regions, and the three provincial-level municipalities of Beijing, Tianjin, and Shanghai.

11. For the full text, see "Guowuyuan Guanyu Chengzhen Feinongye Geti Jingji Ruogan Zhengcexing Guiding" (State Council Policy Regulations on Urban Non-agricultural Individual Economy), Zhonghua Renmin Gongheguo Guowuyuan Gongbao (People's Republic of China State Council Bulletin), no. 16 (25 September 1981), pp. 493-6. For an English translation, see Victor F. Sit, ed., Commercial Laws and Business Regulations of the People's Republic of China (Hong Kong: Tai Dao Publishing, 1983), pp. 573-5. The discussion here is based on the Chinese original (hereafter cited as "Regulations".)

12. For the full text, see "Guojia Laodong Zongju, Guojia Chengjian Zongju, Gonganbu, Gongshang Xingzheng Guanli Zongju Guanyu Jiejue Fazhan Chengzhen Jiti Jingji he Geti Jingi Suoxu Changdi Wenti de Tongzhi" (State General Bureau of Labour, State General Bureau of Urban Construction, Ministry of Public Security, General Administration of Industry and Commerce Circular on Solving the Problem of Premises in the Development of Collective Economy and Individual Economy), in Fazhan Chengzhen Geti Jingji (Beijing: Gongshang Chubanshe, 1981) (hereafter cited as Fazhan), pp. 15-16. A summary was published in Renmin Ribao, 14 May 1981.

13. "Gongshang Xingzheng Guanli Zongju, Shangyebu, Liangshibu, Gongxiao Hezuo Zongshe, Guojia Wuzi Zongju, Guojia Laodong Zongju Guanyu Dui Chengzhen Geti Gongshangyehu Huoyuan Gongying Deng Wenti de Tongzhi" (General Administration of Industry and Commerce, Ministry of Commerce, Ministry of Grain, General Bureau of Supply and Marketing Cooperatives, State General Bureau of Goods and Materials, State General Bureau of Labour Circular on Problems of Materials Supply etc. for Urban Individual Industrial and Commercial Firms), in Fazhan, pp. 13-14. A summary was published in Renmin Ribao, 5 July 1981. For an English summary,

see "Individual Industrial, Commercial Undertakings Supported," Zhongguo Caimao Bao, 4 July 1981, translated in CEA, 10 September 1981, pp. 15-16.

14. "We Must Adopt a Positive Attitude in Promoting Proper Development of Individual Economy in Urban and Rural Areas," Zhongguo Caimao Bao, 5 October 1982, translated in CEA, 7 December 1982, p. 71.

15. See "Policy on Individual Industry, Commerce Eased in Tianjin," Tianjin Radio, 10 January 1983, translated in CEA, 3 February 1983, pp. 12-13; and "Shanghai Issues Regulations on Individual Economy," Jiefang Ribao, 24 March 1983, translated in CEA, 19 May 1983, pp. 38-39.

16. See "Provisions Supplementary to 'Some Policy Regulations of the State Council Concerning Urban Non-agricultural Individual Economy'", in Selected Laws and Regulations of the People's Republic of China Concerning Industrial and Commercial Administration (Chinese title: Zhonghua Renmin Gongheguo Gongshang Xingzheng Guanli Faqui Xuanbian) (Hong Kong: The China Industrial and Commercial Management Press, 1984), pp. 311-316; Chinese original pp. 111-114. For a summary of the main points see Guangming Ribao, 25 April 1983.

17. For a discussion of the issues involved, see Jin Qiwu, "Tan Woguo Xian Jieduan Geti Shenchanzhe Gu Gong Wenti" (Discussion of the Problem of Hiring of Labour by Individual Producers in Our Country at the Present Stage," Anhui Daxue Xuebao, no. 4 (1982), reprinted in Chinese People's University, Laodong Jingji yu Renkou (Labour Economics and Population), no. 1 (1983), pp. 16-20. The author argues that the practice is necessary and desirable, especially in light of the current unemployment problem, but should be strictly controlled.

18. Jin Shihe interview.

19. According to Solinger, citing a report in the New York Times on 24 November 1981, a national-scale commercial work conference of November 1981 "allowed every self-employed person to hire up to seven employees, a decision of the Party Central Committee and the State Council that in effect authorized private retail firms to operate legally on a scale not seen in China in at least two decades." See Dorothy J. Solinger, "Commerce: The Petty Private Sector and the Three Lines in the Early 1980s," in Three Visions of Chinese Socialism (Boulder: Westview Press, 1984), p. 79 and note 14.

20. Jin Shihe interview.

21. Li Lianning and Yu Ping, Geti Jingying Falu Zhinan (Legal Guide for Individual Operations) (Xiamen: Lujiang Chubanshe, 1986), p. 25. Many similar collections were published at the same time in different parts of the country; see, for example, Zou Zhenlu, ed., Geti Gongshanghu (Individual Industrial and Commercial Firms) (Falu Chubanshe, 1986); and Duan Enman and Li Liangyun, eds., Geti Jingji Fagui Zhishi (Shenyang: Liaoning Daxue Chubanshe, 1986).

22. Much of the following information comes from Dong Jiuchang and Cai Liangcai, eds., Zhongguo Gongshang Xingzheng Guanlixue Gailun (Introduction to the Study of Chinese Industrial and Commercial Administration and Management) (Beijing: Haiyang Chubanshe, 1985), especially pp. 96-136; see also "Gongshang Xingzheng Guanli Gongzuo Yao Wei Sige Xiandaihua Fuwu" (Industrial and Commercial Administration and Management Work Must Serve the Four Modernizations), Caizheng Zhanxian (Financial Fronts), 16 March 1979, reprinted in Xinhua Yuebao, no. 3 (1979), pp. 106-108. The present section describes the situation in 1985.

23. Dong and Cai, p. 134.

24. Solinger writes that "a Hong Kong informant told me on November 12, 1979, that these organs have lost prestige in the recent tumultuous years, and so can no longer fulfill their responsibility." See Dorothy J. Solinger, Chinese Business Under Socialism (Berkeley, University of California Press, 1984), p. 74, note 25.

25. According to Dong and Cai, "... some of the comrades involved in industrial and commercial administration had the tendency to [think] 'better left than right, better strict than lenient'; they cracked down too indiscriminately, sometimes to the point of confusing the boundaries between socialism and capitalism, legitimate economic activities and illegal or speculative activities, to a certain extent impeding the socialist commodity economy and the development of the socialist economy." Ibid., pp. 134-5.

26. Ibid., p. 151. The China Directory (Tokyo: Radiopress, Inc., 1980) dates the reinstatement to February 1979.

27. Along with such agencies as the State Statistical Bureau, The State Meteorological Bureau, and the General Administration of Customs. According to the China Directory, 1983, the number was reduced from 41 to 15. Zhao Ziyang's report to the 23rd Standing Committee of the 5th NPC in May 1982 said the number would be reduced from 41 to 10; cited in John P. Burns, "Reforming China's Bureaucracy, 1979-82," Asian Survey 23 (June 1983), p. 712.

28. See China Directory, various issues, 1980-85.

29. See Yang Yi, "New Group to Guide Private Businesses," China Daily, 10 January 1986.

30. Yu Ruhai and Zhang Yi, eds., Chengxiang Geti Gongshanghu Jingying Shouce (Operating Handbook for Urban and Rural Individual Industrial and Commercial Enterprises) (Guiyang: Guizhou Renmin Chubanshe, 1985), p. 46; hereafter cited as Shouce.

31. See Ibid, pp. 47-48; and Dong and Cai, pp. 155-6.

32. The complete rundown is given in Shouce, pp. 40-42.

33. Most of the information in this section is from ibid., pp. 40-41.

34. See "Geti Jingji Fazhanzhong Ying Jixu Jiejue de Jige Wenti" (Several Problems that Should Continue to be Worked Out in the Development of the Individual Economy), Beijing Ribao, 20 September 1981.

35. See Yu and Zhang, pp. 49-50.

36. Wang He, "Shilun Chengzhen Geti Jingji de Falu Diwei" (Preliminary Discussion of the Legal Status of the Urban Individual Economy), Tianjin Shehui Kexue (Tianjin Social Sciences), no. 4 (1983), p. 36.

37. "Wuhan Wubai Duo Geti Shangyehu Bei Wuli Koujiao Yingye Zhizhao" (Operating Licenses Groundlessly Seized from More Than 500 Individual Commercial Enterprises in Wuhan), Guangming Ribao, 30 December 1983, p. 1.

38. "Regulations", pp. 495-6.

39. See "Diyige Geti Laodongzhe Lianhehui Zai Haerbin Chengli" (The First Individual Workers' Association is Established in Harbin), Zhongguo Qingnian Bao, 13 September 1980; "Shi Diyige Geti Laodongzhe Xiehui Chengli" (City's First association of Individual Workers Established) Wenhui Bao (Shanghai), 18 December 1982; Jin Qi, "Individual Industry and Commerce," Beijing Review, no. 17 (25 April 1983), pp. 4-5. Wenhui Bao on 27 March 1983 gave a national total of 670 cities and counties.

40. "Individual Businesses Expand," China Daily, 14 November 1984; Yang Yi, "New Group to Guide Private Businesses," China Daily, 10 January 1986.

41. See "Social Insurance Proposed for Self-Employed Workers," Xinhua News Bulletin (Hong Kong), 21 May 1984, p. 34. The report noted that Wuhan, with 27,291 individual firms, had 136 local organizations, and a municipal federation with a membership of 37,000.

42. "Private Businesses Get National Body," China Daily, 23 December 1985; Yang Yi, "New Group."

43. This quote and most of the information in the following paragraphs is taken from Shouce, p. 10-14; see also "Haerbin Shi Geti Laodongzhe Lianhehui Zuzhi Zhangcheng" (Organizational Regulations for Harbin City Individual Workers' Association), in Faqui Xuanbian, pp. 158-162.

44. "Diyige Geti Laodongzhe Lianhehui Zai Haerbin Chengli" (The First Individual Workers' Association is Established in Harbin), Zhongguo Qingnian Bao, 13 September 1980.

45. Discussed in Chapter 3 above.

46. Chen Jian, Chen Gang, and Fei Suizi, "Congshi Geti Laodong de Qingnian Qiantu Guangming" (A Promising Future for Self-Employed Youth), in Woguo Xin Shiqi de Laodong Jiuye Wenti (Employment Problems in Our Country's New Era), ed. Zhuang Qidong (Jinan: Shandong Renmin Chubanshe, 1984), p. 146.

47. From Shouce, pp. 47-48.

48. "'Capitalism' Plays Key Role," South China Morning Post (Hong Kong), 5 March 1984.

49. Yang, "New Group".

50. See Solinger, CBUS, p. 28, note 58.

51. See Jurgen Domes, The Government and Politics of the PRC: A Time of Transition (Boulder: Westview Press, 1985), p. 202. The resulting inflation, after decades of stable prices, was highly unpopular among consumers. Domes notes that the inflation rate for 1980 was 11 percent for retail trade and 13.8 percent for food. At the end of 1980, "the State Council ... ordered a freeze on the price of all goods unfrozen in 1979 as a way of controlling inflation."

52. "Regulations," p. 495.

53. See "Wujia Guanli Zanxing Tiaoli" (Provisional Regulations for Commodity Price Management), Zhongguo Caimao Bao, 24 August 1982; "Zhengque Lijie he Guanche Zhixing Wujia Guanli Zanxing Tiaoli" (Correctly Understand and Implement Provisional Regulations for Commodity Price Management), Zhongguo Caimao Bao, 28 August 1982; "Jiaqiang Fazhi Guanhao Wujia" (Strengthen Rule by Law, Manage Commodity Prices Well), Renmin Ribao, 24 August 1982; and Wujia Guanli Zanxing Tiaoli Wenda (Questions and Answers on Provisional Regulations for Commodity Price Management), (Falu Chubanshe, 1984), especially pp. 19-20.

54. "Guojia Wujiaju, Qinggongyebu, Shangyebu, Guojia Yiyao Guanliju Guanyu Jinyibu Fangkai Xiao Shangpin Jiage de Baogao" (State Commodity Price Bureau, Ministry of Light Industry, Ministry of Commerce, State Pharmaceutical Management Bureau Announcement on Further Decontrol of Prices for Small Commodities), Zhonghua Renmin Gongheguo Guowuyuan Gongbao (PRC State Council Bulletin), no. 20 (20 November 1983), pp. 936-9.

55. See "Liberation of Controls over Individual Commercial Units," Yangcheng Wanbao, 3 February 1984, translated in CEA, 29 June 1984, p. 117.

56. See "Beijing Shi Gongbu Dui Geti Gongshangye Wujia Guanli Zanxing Guiding" (Beijing Municipality Passes Provisional Commodity Price Regulations for Individual Industry and Commerce), Jiage Guanli yu Shijian (Price Management and Practice), no. 2 (1984), pp. 47-48.

57. For example, in Shanghai in 1980 prices for fresh seafood were higher in the free market in relatively prosperous Xu Wei district than in other areas of the city. Vendors preferred to sell their seafood in that market because they knew they could get higher prices, and consumers shopped there because they could get better products. See also Solinger, CBUS, p. 272.

58. In November 1984 a young Cantonese selling jeans in the Tianqiao market in Beijing revealed that he was buying jeans (which he claimed came from Hong Kong) for 12 yuan in Guangzhou and selling them for about double the price in Beijing. He was partners with a young Beijing resident, who held the permit for the stall, and made the three-day train trip twice a month. When asked if he was paying taxes, he answered "I'm supposed to be ..." (yinggai shi).

59. See "Strict Supervision Over Vendor Stalls Urged," Guangzhou Ribao, 6 May 1982, translated in CEA, 22 July 1982, pp. 36-38.

60. See "Strict Supervision of Individual Businesses Urged," Jingji Ribao, 28 June 1983, translated in CEA, 1 September 1983, pp. 102-103.

61. See "State Council Circular on Market and Price Control," translated in Summary of World Broadcasts (SWB), 27 May 1983, pp. FE/7344/BII/3-5.

62. See "Income Tax for Private Businesses," Xinhua News Bulletin (Hong Kong), 25 January 1986, pp. 53-4.

63. It should be noted that this discussion is confined to the 1978-84 period and does not reflect changes in the tax system after 1984. A national tax was instated in 1986; see ibid.

64. See Shouce, pp. 64-85 for detailed procedures, especially for Guizhou; texts of tax regulations for various localities as of mid-1982 can be found in Chengzhen Fei Nongye Geti Jingji Fagui Xuanbian, pp. 171-210; see also "Getihu Zenyang Na Shui?" (How Do Individual Businesses Pay Taxes?), Renmin Ribao, 28 August 1983.

65. See "Guowuyuan Guanyu Tiaozheng Gongshang Suode Shui Fudan he Gaijin Zhengshou Banfa de Shixing Guiding" (State Council Implementing Regulations Regarding Adjustment of Industrial-Commercial Income Tax Burden and Improvement of Collection Methods), 13 April 1963, in Fagui Xuanbian, pp. 24-31.

66. "Circular on Improving the Payment of Industrial and Commercial Income Tax by Cooperative Stores and Individual Economic Units," in Sit, p. 175. For Chinese original, see Guowuyuan Gongbao, no. 16 (1 December 1980), p. 528.

67. See "Geti Jingji Hu Wei Shenme Bixu Na Shui? (Why Must Individual Businesses Pay Taxes?), Beijing Ribao, 2 March 1981; for Guangzhou see Wang Ruo, et. al., "Guangzhou Shi Huifu he Fazhan Geti Gongshangye Qingkuang de Diaocha" (Survey of Circumstances in Restoration and Development of Individual Industry and Commerce in Guangzhou), Xueshu Yanjiu (Academic Research), no. 4 (1981), pp. 67-72. For Jiangsu, Liaoning, Shandong, and Sichuan, see Chengzhen Feinongye Geti Jingji Fagui Xuanbian, (Selected Laws and Regulations on Urban Non-agricultural Individual Economy) (Beijing: Gongren Chubanshe, 1982), pp. 178, 194, 197, 202; for Guizhou, see Shouce, p. 67.

68. Feng Lanrui, "Cong Yize Xiao Xiaoxi Xiangdao De" (Thoughts on One Small Piece of News), Guangming Ribao, 1 November 1980; "Wuhan Issues Provisions on Individual Businesses," Changjiang Ribao, 23 January 1981, translated in CEA, 20 May 1981, p. 5.

69. See "Zhonghua Renmin Gongheguo Caizhengbu Shuiwu Zongju Guanyu Banli Shuiwu Dengji de Tonggao" (People's Republic of China Finance Ministry General Taxation Bureau Notice on Handling of Tax Registration), Zhonghua Renmin Gongheguo Guowuyuan Gongbao, no. 15 (20 October 1982), pp. 680-681.

70. See Shouce, pp. 68-76 for detailed tax tables. According to their table on pp. 75-6, wholesale businesses and such business services as purchasing agents, customs brokers, and messengers, along with pool halls and dance halls, pay the highest rate (10 percent). Retail, transport, construction, publishing, catering, and repair firms pay the lowest rate (3 percent), as do other kinds of entertainment businesses and various consumer services such as hairdressing, laundry, photography, arts and crafts, sewing, typing, and photocopying.

71. "Geti Shangfan Gongshang Shui You Pifa Bumen Daikou Daijiao" (Industrial-Commercial Tax for Individual Peddlers to be Deducted and Paid by Wholesale Departments), Renmin Ribao, 29 August 1983.

72. "Jiaqiang Getihu Gongshangshui Zhengshou Guanli de Yixie Zuofa" (Several Methods for Strengthening Management of Industrial-Commercial Tax Collection from Individual Firms), Caizheng Yanjiu (Financial Research), no. 6 (1983), pp. 68-9.

73. "Getihu Zenyang Nashui?" (How Do Individual Firms Pay Taxes?), Renmin Ribao, 28 August 1983.

74. "Liu Ying" (Wandering Firefly), "Jimao Zhuangguanyuan Riji Zhaichao" (Extracts from the Diary of a Market Management Specialist), Caizheng, no. 5 (1983), pp. 33-4.

75. "A Variety of Problems Cause 30 Percent of Individual Businesses in Guangzhou to Suspend Operations", Yangcheng Wanbao, June 8, 1982, translated in CEA, September 29, 1982, pp. 95-96.

76. See "Provisions Supplementary to 'Some Policy Regulations of the State Council Concerning Urban Non-Agricultural Individual Economy'", in Selected Laws and Regulations of the People's Republic of China Concerning Industrial and Commercial Administration (Chinese title: Zhonghua Renmin Gongheguo Gongshang Xingzheng Guanli Faqui Xuanbian) (Hong Kong: The China Industrial and Commercial Management Press, 1984), p. 315.

77. See "Tianjin Tax Evasion," Tianjin Ribao, 23 September 1983, translated in CEA, 3 November 1983, p. 30.

78. Liu Yajun, "Shangmen Shoushui de Banfa Hao" (The Door-to-Door Tax Collection Methods is Good), Caizheng, no. 1 (1983), p. 49.

79. Sui Zongzheng, "Cha Bu Shuishou Meiyou Guotou, Getihu Jixu Fazhan" (Investigation and Filling-in of Taxes Has Not Gone Too Far, Individual Enterprises Continue to Develop), Caizheng, no. 7 (1984), p. 34.

80. Wang Ruo, et. al., pp. 71-72.

81. See "Zhonghua Renmin Gongheguo Caizhengbu Shuifa Zongju Guanyu Geti Gonshangyehu Bixu Yifa Nashui de Tonggao" (PRC Finance Ministry General Bureau of Taxation Circular on the Necessity for Individual Industrial and Commercial Enterprises to Pay Taxes According the Law), Zhonghua Renmin Gongheguo Guowuyuan Gongbao, 20 December 1983, p. 1039.

82. See Sui, p. 34.

83. Chen Mengran, "Dianxing Cailiao Tuidongle Getihu Zicha Bushui Gongzuo" (The Use of Model Cases Expedites the Work of Self-Investigation and Filling-in of Taxes by Individual Firms), Caizheng, no. 4 (1984), pp. 37-38.

84. Shanghai Shi Shuiwuju Shuizheng Er Chu (Shanghai City Tax Department Second Taxation Office), "Jiaqiang Guanli Du Loudong: Geti Shuishou Zhuyue Zeng" (Strengthen Management and Plug Loopholes: Individual Taxes Increase Monthly), Caizheng, no. 4 (1984), p. 32.

85. Ibid.

86. Sui, p. 34.

87. See "Caizhengbu Shuiwu Zongju Guanyu Jiancha Jiuzheng dui Geti Gongshangyehu Weifan Shuishou Zhengce de Tongzhi" (Finance Ministry General Taxation Bureau Circular on Inspecting and Redressing Infringements of Taxation Policy Toward Individual Industrial and Commercial Businesses), Caizheng, no. 5 (1984), p. 47.

CHAPTER V

THE SOURCES AND EFFECTS OF AMBIVALENCE

Introduction

The previous three chapters have recounted the development of policy toward the individual economy prior to 1978 and from 1978 to 1984, and outlined the ways in which central policy has been implemented by administrative agencies since 1978. Inconsistency and ambivalence at best, outright hostility at worst--both before and after 1978--have been recurrent themes in the treatment of the individual sector, both in central goverment policy and in the way that policy has been implemented by cadres and agencies at the local level.[1]

The various aspects of the problem were summed up in a 1986 study published for internal circulation by a research department of the State Council; its conclusions apply equally to the period under study:

> Because conceptions differ, and because there has been a lot of general debate, various localities and departments have both welcomed and feared the development of the individual economy, have both wanted to control it and not dared to control it, leading to vacillations in policy. When the upper levels instructed them to develop the individual economy, [the localities and departments] didn't think through what was realistically possible, they developed [it] blindly, using various methods from granting credit to holding mass meetings to motivate people, etc. When some problems began to emerge in the development of the individual economy, again they didn't stop to analyze, but instead used various pretexts to institute controls, even to the point of discriminating against individual businesses, deliberately creating difficulties in every area [of their operations], arbitrarily outlawing, confiscating, and fining them in flagrant disregard of policy and in violation of their legitimate legal rights. Public opinion toward individual

> businesses has been very critical, prejudiced, and disdainful. The individual businesses themselves have also felt that policy has been unstable, their political status is inferior, they are without honour. Some of them see it as a provisional means of making a living, some are taking advantage of it to reap some profits while they can; they don't see self-employment as a long-term, stable form of employment. The above problems, at root, are problems of understanding of the position and role of the individual economy in our country's socialist economy.[2]

The fact that this was written in 1986, about eight years after the central government for the first time in the history of the PRC adopted a deliberate policy of encouraging the long-term growth of the individual sector, indicates very clearly that the antipathy toward the individual economy goes deeper than the author's final statement would lead one to believe.

This chapter will explore various dimensions of the status of the individual economy and attitudes toward it, as they have evolved with the restoration of the sector after 1978. It will begin by describing its peripheral position with respect to the central unit of Chinese economic, social, and political life--the work unit, and the implications, both positive and negative, of this peripheral position for the self-employed. The discussion will then turn to the question of attitudes toward the individual economy, among society at large and the self-employed themselves. Here the role of the Chinese media in influencing these attitudes will be touched upon.

The next topic will be the problem of cadre harassment, which from the point of view of individual operators is the most important manifestation of their uncertain status and the prejudices against them. The dimensions of this problem will be

described, and some suggestions will be put forward as to the reasons for its extraordinary tenacity in the light of post-1978 central government policies which have pointed in quite the opposite direction. The chapter will end with a discussion of the socio-cultural and ideological roots of this apparent antipathy toward small-scale private trade in contemporary China.

Social and Political Status of the Individual Economy

The Work Unit in Chinese Society

The full significance of individual employment in China cannot be grasped without some understanding of the importance of the work unit (danwei) in the lives of Chinese workers. Far more than a place where one goes to earn a paycheck, the factory, university, department store, or government agency is responsible for providing a wide range of services to its employees which encompass almost every aspect of their non-working lives.

The unit is responsible first of all for salary and what we usually think of as fringe benefits: medical coverage, disability benefits, sick leave, maternity leave, retirement benefits. It also often provides housing for employees and their families. It provides low-cost meals in subsidized canteens, and daily necessities in on-site tuckshops (xiao maibu). It runs clinics, day-care centres, and even schools for children of employees. It organizes leisure activities and provides recreational facilities. It distributes ration tickets for state-regulated

commodities such as grain, and for luxury manufactured goods such as high-quality bicycles. It organizes the physical distribution of some commodities to employees through bulk purchase.

The work unit is also the home of basic-level branches of political organizations such as the Communist Youth League, the Party, and various mass organizations; entry into these organizations is handled at the unit level. The unit's internal party organization (just as with the government, inside units there is a parallel party organization with Party Secretaries handling Party business at every level) organizes the compulsory weekly political study sessions and activities related to current political campaigns, as well as those related to other kinds of campaigns, such as family planning, tree-planting, traffic safety, and legal education. It can organize teams of personnel for street-sweeping or snow-shovelling. The unit often provides jobs for employees' family members by setting up collective workshops and stores. The unit is responsible for matters related to residence permits (hukou) and maintains files (dang'an) with personal information on all personnel (files that go to their next unit should they change jobs). When deemed necessary it also organizes criticism meetings. The work unit gives (or witholds) approval for marriages and divorces. It provides matchmaking services, and mediates in family and civil disputes.

The larger unit (for example a university) is often physically set off from the surrounding area by a wall, with limited access through one or a few gates, guarded by a

gatekeeper who watches who goes in and out, and locked at night--in which case visitors and even the residents may not be able to get in or out after a certain hour.

Not all units perform all of the above functions for all workers. They vary immensely in size, facilities, and administrative affiliation (i.e. the level in the government bureaucracy at which they are administered; some universities, for example, come directly under central administration while others are under the jurisdiction of the provinces; some factories are run by central ministries and others by neighbourhood committees.) The largest, richest units at the highest levels of administrative control in general provide the best benefits and facilities, and many in fact offer what comes close to cradle-to-grave security. The range of benefits provided, combined with the fact that, despite recent reforms in the employment system, firings or layoffs of regularly-employed workers (as opposed to contract workers) are still almost unheard of, justifies the famous descriptive phrase, "the iron ricebowl." It is for this reason that a job in a large state-run or collective unit is so highly prized. Smaller state-run units or collectives have fewer resources and less clout, but still provide at least the basic coverage. People working for tiny cooperatives and neighbourhood-run units are the least favoured in this respect. In those areas where gaps occur, they are usually filled by the neighbourhood administration.[3]

With so many aspects of one's life organized or watched over by the work unit, it is small wonder that for many people in China, being without a danwei is--or has been until recently--an almost incomprehensible condition. Yet this is precisely the defining characteristic of self-employment.

The Porcelain Ricebowl: Life Without a Work Unit

In comparison with employment in a regular work unit, self-employment has been described as the "porcelain rice-bowl"--more attractive and valuable than the iron variety, but also far more fragile.[4] Being outside the jurisdiction of a work unit has many advantages, including independence and the possibility of high incomes. But it also has significant drawbacks, the major ones being the lack of long-term job security, and the lack of benefits and services usually provided by the danwei.

Compared to workers in regular units, the self-employed are subject to far less supervision or interference in their daily lives--a definite attraction for many of the maverick types who seem to favour self-employment.[5] In addition, the system of job assignments frequently places people in jobs they have little interest in or talent for, or which offer little scope for personal development. As one study of self-employed youths in Beijing noted,

> Individual economy provides an outlet for young people with special skills. Normally when embarking in society, young people all hope to be able to engage in occupations they enjoy and develop their own skills in the service of society.

> The development of the individual economy has a certain attraction for the more self-reliant and skilled young people.[6]

Self-employment provides an alternative for such people to put their skills and talents to good use, and it provides challenges that might be missing in a regular job. It also provides material rewards for ability and hard work. A study in Shanghai found that of 325 young individual operators, more than sixty percent were utilizing their own skills and hobbies, making a living from such activities as sewing, knitting, repairing watches and bicycles, drawing and painting, photography, and making handicrafts: "Avoiding the weakness of their low educational levels, they developed their own strong points."[7] Many of the self-employed have actually left secure jobs in state-run or collective units to open their businesses. The 1983 Beijing survey alluded to frustration and lack of motivation in employment as important "push factors": " ... in their original units they ate from 'one big pot', it was all the same whether they worked a lot or a little, there was no way to put their talents to good use, but after opening individual businesses the more they worked the more they gained."[8]

In general, though, the lack of a work unit has more often been portrayed as a drawback, and a major impediment to the growth of the individual economy. Many of the prejudices and objections that people have expressed about self-employment stem from this condition of being without a work unit: lack of job security, lack of labour insurance and other fringe benefits, lack of channels for political participation and advancement, and

structural discrimination against individual firms in such matters as supplies and premises. It also contributes to the general feeling that the self-employed are scorned and discriminated against by the rest of society.

The prospect of life without a danwei is particularly daunting for young school-leavers awaiting job assignments. As one young self-employed delegate to a Communist Youth League conference pointed out, without a work unit even such a basic matter as identity documents may become a major problem: "When he went to a public library to borrow books, they asked to see his i.d. card. Once, when riding on a bus, somebody lost a purse, all those with i.d. cards were let go and he was queried by the police."[9]

Apart from being deterred by factors such as long-term job security and fringe benefits, the work itself might not appeal to some people when compared with work in a regular unit. It is often observed that self-employed workers, although they might make good money, work far harder than their counterparts in state or collective units. They work longer hours and take less time off, and they tend to be busier during their working hours.

Even if the young people themselves are enthusiastic, their parents might not be, particularly if they are thinking about what kind of support they can expect in their twilight years from a self-employed daughter or son. Thus if there is any chance at all of assignment to a job in a regular unit, many young people still opt to wait, or start businesses only as a temporary measure while continuing to wait for other employment.

Social Benefits

The absence of benefits usually provided by the work unit, especially labour insurance, retirement funds, and other forms of social security, has been singled out as one of the major impediments to the growth of the individual economy. The lack of such benefits also reinforces the general perception of instability and insecurity in the individual sector.

The State Council regulations of 1981 and 1983 in principle authorized the self-employed to set up labour insurance and retirement schemes, but were vague as to details. Various proposals were put forward and implemented in different localities. In one street in Nanjing, for example, an experimental labour insurance scheme was set up to provide benefits for self-employed workers, workers in collectives which had no such coverage, and temporary workers in all units, who were not covered by regular insurance schemes.[10]

Various articles have pointed out that social insurance is a right guaranteed by the Constitution, and suggested various ways in which health care systems and pension plans could be instituted for individual firms. Yet as late as May 1984, a young restaurant owner who was a delegate to the National People's Congress found it necessary to urge the government to set up the mechanisms whereby such a scheme could be implemented. Self-employed workers, he said, "are willing to pay for social insurance. They ask only that the government work out concrete measures as soon as possible."[11]

A 1985 handbook for individual operators, however, revealed that the insurance problem was still being tackled in a piecemeal manner:

> It is very difficult to solve on a family-by-family basis. The establishment of individual workers' associations has furnished the conditions for solving the welfare problem for individual firms. According to state regulations, individual firms should calculate seniority according to the number of years of actual business from the day they are approved for individual operation. Individual operators can contribute social insurance payments to insurance companies, and gradually set up labour insurance and retirement schemes.
>
> The individual workers' associations must actively create the conditions, in the areas of raising welfare funds and setting up social insurance systems. [They should] gather experience, start from reality, and do what they are capable of, gradually setting up some welfare undertakings for individual firms where they are both needed and are within their capabilities, in order to solve individual firms' domestic troubles.[12]

Political Status

Another consequence of lacking a work unit is that individual operators have had to find other channels for political participation. In a society where upward mobility for many people still means advancement through the Party ranks, membership in the Communist Youth League and the Communist Party are considered extremely desirable by many, as are recognition as "advanced workers" and the like. The grooming of such people--the so-called "activists" (jijifenzi)--is a very important function of Party organizations in work units. For individual operators, other means have had to be found.

But it is not only the absence of a work unit which has handicapped individual workers in their political aspirations. It appears that unless local Party organizations paid special

attention to this problem, it was all too easy for individual operators to fall through the cracks. As a letter to the Youth League newspaper Zhongguo Qingnian Bao in September 1980 complained, "no-one is paying attention to the ideological progress" of young individual operators; "some of them were originally League members, but once they became self-employed the League organizations didn't care about them anymore; some young people want to join the League but don't know where to apply."[13]

Part of the problem has been that, with the uncertainty surrounding the status of the individual economy, many people were apparently concerned that private owners would still be politically suspect. Because of the stress that had previously been paid to class background, and because of the individual economy's past association with capitalism, there has been some fear that being self-employed could become a political stigma, particularly if policies should change again. Said one retired worker, quoted in a Beijing Ribao article in 1980: "My whole life I never committed an error, now that I'm old I don't want to get into trouble for running an individual business."[14] Another retired clothing worker still had not started up his business two months after obtaining his license, because he was afraid his class designation would be changed as a result. The newspaper report noted:

> Comrades of the Administration of Industry and Commerce also raised the point that there should be regulations on policy toward individual firms. For example there should be actual municipal regulations that for unemployed youths, running individual businesses should not affect their [chances of] job recruitment, military participation, or attending university.[15]

In fact the State Council regulations of July 1981 did spell out the central government's position on the political and social status of self-employed workers, stating in Article 13 that

> Individual operators are the same as workers in state-owned and collectively-owned units, enjoying the same political rights and social status. The concerned departments and units must treat self-employed youths equally and without discrimination in regards to military service, educational advancement, etc.[16]

Nevertheless, progress in securing the political status of self-employed workers has been slow and uneven. A national newspaper complained in December 1982 of the continued frustration of the political aspirations of individual workers in the nation's capital. It pointed out that the Beijing municipal and regional People's Congresses and People's Political Consultative Conferences had no representatives at all from the individual sector, nor were there any self-employed model workers.[17]

Yet six months earlier in Liaoning province, ten young individual operators who had been named provincial "advanced producers" gathered to attend a meeting of 1,358 such "heroes" in the provincial capital. Some of them had joined the Party in the past year, others had been chosen as People's Congress representatives, while others had been named municipal model workers.[18] When a provincial individual workers' association was set up in Liaoning in April 1984, it was announced that over the previous two years, out of a total of about 300,000 individual operators in the province,

> Some 5,000 ... have been commended by People's Governments at all levels and by various departments; more than 200 such workers have gloriously joined the [Party] and the [Youth League], and many of them have have been elected deputies to People's Congresses of various nationalities, CPPCC members, [Youth League] members, and representatives of women's congresses.[19]

In order to combat the idea that it is not proper for private entrepreneurs to become party members,[20] over the years the press has given wide publicity to "activists" in the individual economy. Not every new party member is given a spot on the front page of one of China's most prominent daily newspapers, an honour that was accorded to a young photographer in Harbin named Bai Shiming. Headlined "Self-Employed Worker Bai Shiming Enters the Party", a 1983 report in Guangming Ribao outlined Bai's political accomplishments to date: he had been in business since December 1979, and since then had been "wholeheartedly serving the people"; in the process he had been named a "pacesetting shock worker in the new long march for youth", a "five-good" individual business, and a model worker. He had already applied several times to join the Party, with the encouragement of both Party and government organizations and the recommendation of his neighbourhood committee; he was finally accepted on 10 March 1983.[21] Bai was also an active member of the local individual workers' association.

The formation of the associations has been a key element in raising the political status of the self-employed. When the first one was set up in Harbin toward the end of 1980, it was heralded by the economist Feng Lanrui as something which "represents societal recognition of the political and social

status of self-employed workers."[22] One key function of the associations has been to set up Party and Youth League branches "to allow Party members among individual operators to more fully exercise their role as advanced models." Announcing the establishment of such a branch in Shenyang in December 1982, Renmin Ribao said that "for the Party to set up a branch organization among individual workers is an unprecedented thing, this shows the Party's profound concern for individual industrial and commercial workers, and also shows that [their] political status is the same as workers and staff in state-run and collective [units]."[23]

Apart from setting up organizations for Party and Youth League members, the associations have played a major role in organizing the political lives of all their members. As with work units, they hold regular political study sessions. They have also played a prominent role in organizing the participation of individual operators in the periodic campaigns to promote healthy socialist values, and have taken "ideological education" as one of their key functions. Beijing Ribao described the activities of one such organization in this area:

> The association often organizes members to study relevant party policy. After the new Constitution was promulgated, the vast majority of members participated in study [sessions] organized by the association, receiving a very good legal education. When the Sixth National People's Congress was in session, the association organized individual operators to go out in the streets and do voluntary service, cutting out garments for the masses and repairing articles; this received acclaim from the masses. They have also held "four comparison" activities (comparing service attitudes, comparing adherence to policy, comparing business styles, comparing unity and cooperation), and every six months they make a selection and give advanced businesses commendations and certificates of merit.[24]

The associations are not the only channels for political guidance of self-employed workers, however. In Guangzhou, where officials have been especially concerned about the negative influences filtering across the border from capitalist Hong Kong and Macau, one of the street-operated labour service companies was lauded for its approach to the "ideological guidance" of young individual operators. Along with the local Youth League committee, company cadres

> ... often go down to the grassroots level to talk with young individual operators, and organize various kinds of activities; they have gradually developed Youth League members and set up a League branch for individual operators. They have also chosen some impressive, representative young individual operators with organizational abilities to become committee-members of the neighbourhood self-employed workers' association. As a matter of course they pay close attention to ... ideological education, and organize young individual operators to take part in mass political activities organized by the city, district, and neighbourhood Youth Leagues; they also keep a close watch on young individual operators' business and economic situations, and for those with genuine difficulties, they promptly report them to the leadership to seek solutions.[25]

It appears, then, that with the institutionalization of the individual economy, the question of the political status of the self-employed has gradually been resolved. This is perhaps because politics is one area where the central authorities are in firm control, and where Party policy is inviolable.

Attitudes Toward Self-Employment

Despite their relative success in the political sphere, the experience of individual operators during the period under study was on the whole characterized by discrimination and insecurity. Along with the modest revival of sociology as an academic

discipline in China since the late 1970s, there has been a marked upsurge in the publication of attitude surveys, which among other things have provided valuable information on how people in China perceive the social status of the self-employed. Studies of occupational preference among young people, and surveys of attitudes toward the individual economy itself, reinforce the impression that self-employment is regarded as an inferior and insecure source of livelihood.

Attitude Surveys

A study of the graduating classes of three middle-schools in Shanghai, published in 1982, is a case in point. The survey included 150 graduating students from four senior high school (gaozhong) classes in two ordinary high schools and one key-point school. When asked to evaluate thirty-eight occupations in terms of their own employment preferences, "self-employed worker" ranked at the very bottom of the list, below dock workers, kitchen staff, and peasants, and even below the universally-despised occupation of sanitary worker. (The five highest-ranking occupations were engineer, doctor, technician, journalist, and judge.)[26]

Granted, these students, particularly the ones from the key-point school, were among the elite of educated youth. Most of them, even in the ordinary high schools, wanted to go on to some form of higher education, regardless of their educational record so far, or their parents' occupations. Yet for most this was an unrealistic expectation because of the competition for

scarce places in universities and colleges. They were in fact the very population the new relaxed policies toward self-employment were designed to help.

According to their teachers, however, "students believe that individuals in self-employed enterprises lack security and have an uncertain future ..." As the authors pointed out, "that a majority of students make no secret of their strong dislike for [self-employment] is worthy of attention and research."[27]

The attitudes of the self-employed themselves toward the occupations they have chosen is even more revealing. In August 1983 social scientists in Beijing surveyed eighty self-employed delegates to the national conference of "advanced representatives" of the individual and collective sectors being held in the capital at the time. One of these researchers was also involved in a similar survey conducted in four urban districts of Beijing during September and October 1981.[28] Respondents in the earlier survey, when asked if they had any misgivings about self-employment, said they worried about three things: possible change in policy; the lack of labour insurance to provide benefits for maternity, sickness, and old age; and the fear that after being self-employed they would have trouble finding a regular job. When the same questions were asked two years later, of respondents who would be expected to have exceptionally positive attitudes toward self-employment, they gave substantially the same answers. The report noted:

> [The responses] revealed that, although the appropriate development of the individual economy has become a basic policy in our country, and has been written into the Constitution, in some departments and localities insufficient importance is still attached to the individual economy, and individual workers are still discriminated against. Therefore, some self-employed young people do not foresee a bright future, they still have a "live from day to day" mentality, they make money hand over fist but don't consider their own responsibilities and reputation; the income of a lot of individual firms is not used to expand reproduction, nor is it saved in the bank, it is frittered away.[29]

To solve this problem, the authors said, "we have to continue to root out 'left' ideological influences, make a lot of propaganda on the necessity to appropriately developing the individual economy, publicize advanced models among individual workers, and correct all the various attitudes of discrimination against the individual economy."[30] In reality all of these strategies had been in effect since at least 1980; the fact that such recommendations were still considered necessary in the summer of 1983 revealed how little had been achieved so far.

Even in Guangzhou, where the individual sector has gained an unusually strong foothold, similar attitudes persisted. In a 1983 survey of 108 graduating students in two high schools, more than half said they preferred to wait for a state job assignment after graduation; only thirteen were considering opening their own businesses. Even young people who were already in business were still hoping for job assignments. In addition, there were many young people in the city who had already been waiting several years for job assignments, but had not chosen to go into business in the meantime. The survey revealed that they "were depressed, this created a lot of resentment, they felt that

graduation amounted to unemployment." On the other hand, there were also some young individual operators who had quit school early in order to join family businesses and start earning money. In the eyes of the authors, this was equally undesirable.[31]

Researchers in Harbin, in a report published in 1983, attempted an unusually detailed study of the attitudes of two hundred young individual operators in six districts of the city.[32] They found that the respondents fell into three groups. Only 31 percent regarded their present occupation as long-term employment. 40 percent did not really want to be self-employed, but were "making do for now" (duifuzhe gan). The other 29 percent had what was described as a "wait and see" (zouzhegiao guanwang) attitude. The first group tended to be either unskilled, or older than other informants, which meant they either could not get other jobs, or could only get jobs that paid less than they were currently making from their individual businesses. The second group--those who were "making do for now"--for various reasons didn't like what they were doing, but since for the time being they had no other work, they felt that to "do a little work, make a little money, [was] better than doing nothing." The third group--those with the "wait and see" attitude--were even less circumspect. They felt that as long as everything was going all right, they would continue to be self-employed, but that "if dangers arose, they would find something else to do." The researchers concluded from this that almost 70 percent of their informants were "not confident" about their future as individual operators.[33]

Asked in detail about the reasons for their lack of confidence, they cited five factors: policy change, lack of security, discrimination, hardship, and future censure.

Seventy-two percent of the respondents, including about a quarter of the group who saw self-employment as a long-term prospect, said they worried about a possible change in policy: "They felt that the party's policies change too quickly; the slightest change, and their ricebowl would be smashed." More than half worried about security: "They felt that being self-employed did not rate as employment, there was no labour insurance, therefore they had not achieved basic security in their lives, so they had no peace of mind." Of the respondents who gave this answer, about half fell into the "wait and see" group. Twenty-nine percent said they feared discrimination:

> They felt that individual operations were the lowest level of employment in society; everyone looked down upon this type of work. Therefore they were worried that relatives and friends would ridicule them, that they would not be able to find a spouse, and that they would have no political prospects (zhengzhishang mei you bentou).[34]

About 20 percent worried about the "hardships" involved in self-employment, saying they felt the work was too hard and the hours too long, "whereas state employment was the 'iron ricebowl', where they could still earn a salary even without working ..."

Ten percent of the respondents said they feared what could be translated as "censure," but which the authors called "wearing a hat" (dai mao, which means to be branded with a label with negative political connotations), or "cutting off the tail"

(ge weiba, referring to past attempts to eradicate the individual economy as the "tail" of capitalism.) These respondents "felt that self-employment, being independent work, was different in orientation from socialism, [and] they were afraid that at some time they would be forced to wear the hat of a 'small proprietor' or 'capitalist', with bad results; the most minor of new campaigns would be disastrous."[35]

The rest of this section will look in more detail at the factors underlying the fears expressed by these self-employed young people in Harbin and elsewhere, and some of the ways in which the authorities have tried to dispel these misgivings. Analyses in Chinese sources have tended to focus on three major factors, all of which seem particularly critical for young people: the fear that policies will change, leaving self-employed workers jobless and possibly in political trouble; the lack of benefits and other forms of security usually provided by a work-unit; and lack of social prestige, leading to discrimination and to possible problems in finding a marriage-partner.

A study of the individual economy in Shanghai shows how these factors might be intertwined. It noted that by late 1981 there were still only 335 self-employed youths under the age of twenty-five in the urban districts of the city, almost all of whom came from workers' families. Although their numbers were growing rapidly, they still represented only about 3 percent of the total of self-employed workers in the municipality, and only

0.67 percent of the total of unemployed ("waiting for employment") youths.[36] The researchers cited the fears of their parents as a major reason for this phenomenon:

> Some wondered whether the government's policy will permit the long-term continuation of a situation in which the children's monthly incomes exceed the wages of their parents by one to two times. Will the policy change? Some thought they could try it, perhaps temporarily, as a transition, to reduce the family economic burden, and then later wait for arrangements by substitution [where a child takes over the parent's job when he or she retires] or job recruitment so as to have guaranteed security in birth, aging, illness, and death. One parent, a Party member, bought a transverse-weaving machine for the livelihood of the children who remained at home ... but also was worried whether in the future they might be classified as petty proprietors. Some cadre parents were afraid of being criticized for supporting their children in taking "the capitalist road." Some parents, as intellectuals, feel that it is not a permanent solution to let their children engage in individual-run businesses which [are] "not honorable," "not dignified," and hurt the parents' prestige. They would rather have the children stay at home waiting for jobs since they can afford to raise [them]. ... Still other parents are afraid that the children doing individual businesses might have excessively broad contacts and be corrupted by bad influences.[37]

For these parents and for their children, many of their misgivings seem to centre around the belief that whatever their government says today, strategies for the future must take into account the possibility that tomorrow there may be yet another reversal in policies.

Fear of Policy Change

In study after study of the individual economy, fear of policy change has been cited as a major factor hindering the growth of the sector. For anyone who has paid attention to the past vicissitudes of the individual economy in China, this is a perfectly reasonable fear, which, despite the protestations of

the central leadership, is reinforced by similar attitudes amongst many cadres (see the section on "leftism" in this chapter.) If only for this reason, it has been particularly difficult to eliminate.

Fears about policy change have manifested themselves in many ways. The researchers who conducted the 1983 Beijing study, for example, cited a newspaper report which stated that very few individual operators saved their earnings in bank accounts, a phenomenon which was "directly related to the lack of confidence of some self-employed workers in the longevity and stability of policies."[38]

Even as late as the spring of 1986, despite all the policy measures and propaganda efforts designed to reassure the public about the longevity of this policy, similar evidence was given to demonstrate the continued lack of confidence among the self-employed. A survey of individual operators in nine cities including Beijing and Shanghai revealed that only 6 percent had bank accounts. Some families were reportedly hoarding as much as 100,000 yuan in cash. A report in the Chinese newspaper Economic Information said that "... the entrepreneurs prefer cash because they fear that state policies will change. ... They worry that should the Government start cutting the capitalist tail again, their bank savings will be frozen or confiscated. They feel safer to keep their money at home than putting it in the bank to generate interest."[39]

In a collection published for internal circulation by the State Council in 1986, reports on the state of the individual economy in several cities and provinces, including Zhejiang, Shanghai, Suzhou, and Tianjin, mentioned the fear of policy change as a persistent problem among individual operators, one which not only made the numbers of firms smaller than it would otherwise be, but also influenced the way individual operators did business. In Shanghai, for example, the Administration of Industry and Commerce acknowledged that public opposition toward excessive incomes among individual operators, and toward "some problems emerging in the market" appeared to some individual operators to be an omen of policy reversal. As concrete evidence they cited not only the dearth of bank deposits by individual firms, but also the fact that many of the self-employed, after making some money, simply gave back their licenses and got out of business. For those that did stay in business, the article reported, the profits tended to go into consumption rather than reinvestment.[40]

Apart from losing their bank deposits, possible future policy change could have other kinds of ramifications for the self-employed. Young people who chose to become self-employed could possibly leave themselves open to censure or re-education should the individual economy come to be reclassified as petty capitalism. Even if that should not happen, they might have problems finding jobs in regular work units if self-employment were eliminated at some time in the future. There seems to be little that central authorities can do to alleviate this concern

about future policy change, apart from continuing to reiterate their commitment to the further growth of the individual sector while continuing to institute concrete administrative measures to facilitate it.

Marriage Prospects

Another symptom of the shaky status of self-employed workers has been concern about their luck in finding marriage partners. A study of the individual economy in Nanjing cited "love and marriage problems" as one major reason many people were unwilling to go into business:

> Because of the above factors [problems of political and social status], in addition to the fact that in reality individual operators have no guarantees in medical treatment, maternity leave, and childcare, or in housing, etc., this causes them to encounter a lot of difficulties in questions of love and marriage. In our interviews with individual operators, a lot of them expressed the hope that the relevant units and leaders could help them solve their problems in the area of love and marriage.[41]

A report in Shanghai's Jiefang Ribao in early 1985 said that even the wealthy wan yuan hu (10,000 yuan households) were having trouble finding themselves mates.[42] It said that many women were afraid to marry self-employed men because it was "too risky," especially since a lot of them suspected that the money might have been earned dishonestly. One woman who found out that her boyfriend was selling clothes with false trademarks "was so afraid that she often had nightmares" and, when she couldn't persuade him to stop, called off the relationship. Even with honest individual operators, potential wives apparently preferred the security of a spouse with a regular income.

Potential wives were also put off by the inferior social status of self-employed men; many were pressured by family and friends into breaking off with their boyfriends when it became known they were self-employed. (The article cited in evidence a poll which rated sixty types of employment; self-employment ranked second to last.) Individual entrepreneurs also had trouble finding wives because they "often are poorly educated and rustic in their language." A recent poll of 3,000 women had discovered that the most important criterion for choosing a husband was "decent behaviour."[43]

All of the above issues of social and political status, and public attitudes toward self-employment, were perceived to be impediments in the way of the Chinese government's stated objective: the "healthy development" of the individual economy. Over the period under study, the central authorities used all of the means at their disposal to counteract them, including policy measures and, an even more potent weapon, propaganda.

Propaganda: The Role of the Press

> Xiao Zhang: Comrade Lao Li, I have something on my mind that I'd like to discuss with you. When I applied to start my own business, some of my friends, relatives, and classmates objected. They said that when you are self-employed, "there's no political future, there's no economic security, there's no social standing, even finding someone to marry will be a problem." ...
>
> Lao Li: Yes indeed, right now a lot of comrades are thinking muddled thoughts like this. It's mostly because they don't properly understand the essential differences between the individual economy under the socialist system and the individual economy in the old society.
>
> Xiao Zhang: Please, could you be more specific?

The above exchange between "Little Zhang" and "Old Li" appeared in Guangming Ribao, one of China's two major general-circulation daily newspapers, and the one with the reputation of being aimed at well-educated readers, on 13 April 1983. It introduced that week's special column on economics, which each week provided basic information on different aspects of economic theory and policy. The topic for the week was the individual economy. "Old Li" went on to explain to "Little Zhang" the differences between self-employment under capitalism and the new, more exalted status of individual economy under socialism.

The press in China, virtually all of it either operated or controlled by the government and/or party, serves the government and Party as an essential medium for explaining, justifying, and promoting the policies they adopt.[44] This is no less true for the individual economy than for any other policy area. A report on a survey conducted among young self-employed workers in Beijing in 1981 explicitly underlined the importance of propaganda in promoting individual enterprise:

> ... it is necessary to step up the mopping-up of "left" ideological influences. We must publicize through various channels the status and function of the individual economy within the socialist economy ... As for advanced self-employed youths who make outstanding achievements, we must strenuously publicize their commendations, to create glorious public opinion for self-employed workers.[45]

At the same time, newspapers in China have another function. As Brantly Womack has pointed out, while the primary purpose of the media and of journalism is to serve as "mouthpiece of the party," it is something more than a "'propaganda machine'

spewing forth self-serving lies. Important news and communication functions are served ..." Furthermore, as a "transmission belt" between the Party and the people, newpapers also have another responsibility:

> Journalists must faithfully and accurately convey the direction of party leadership to the masses, amplifying official documents by applying their spirit to ordinary life situations. ... The primary meaning of "responsible journalism" in a communist context is faithful transmission. ... However, the media's service is to the party's leadership of the masses, not to the party's interests as an elite. It is the media's responsibility to improve party leadership by providing a communication channel from the population to the party and by investigating and criticizing individual failures and weaknesses of CCP leadership. ... Such criticisms and investigations are justified because they are not criticisms of the party's correct leadership of the masses, but rather criticisms of failures by individuals to live up to their responsiblities and exposure of problems for which current party policy is not adequate.[46]

This, at least, is the theory. In fact journalists have repeatedly been, and continue to be, under fire if their criticisms can be interpreted as undermining the authority or prestige of the Party.[47] Nevertheless, especially since 1978, as the coverage of the individual economy shows, newspaper journalism has played an important role in exposing both the shortcomings of existing policy, and the errors and injustices committed by cadres in implementing that policy.

In part this function has taken the form of investigative journalism, some of which is prompted by readers' letters.[48] In selected cases the newspaper assigns a reporter to make further investigations and then treats the case as a model, with wide publicity. In many cases, however, investigative journalism proceeds at the instigation of high-level officials, especially

when the theme is exposure of basic-level bureaucrats for inadequately or improperly carrying out central policies.[49] In addition, central newspapers like Renmin Ribao and Guangming Ribao frequently pick up stories from local newspapers in order to give them wider publicity and the stamp of central Party authority.

Throughout the period under study the general-circulation newspapers played an important role in the campaign to popularize the individual economy, inform the public about central policy, and publicize cases of harassment by local officials or law-breaking by individual operators (especially during the crackdown of mid to late 1983.) One of the most enduring themes was cadre harassment, particularly in late 1982 and early 1983, when discrimination by low-level cadres and generally negative attitudes toward the self-employed had become widespread, and when the State Council was gearing up to issue the new and more liberal supplementary regulations. The newspapers were full of stories lauding the accomplishments of individual entrepreneurs and castigating local-level bureaucrats. In these reports, the press often appeared to be allied with the central authorities on the side of the self-employed entrepreneurs, with the local-level authorities as the targets of their often very emotive criticism.

A typical example of such an alliance--and the rhetoric used to publicize it--appeared in Renmin Ribao in March 1983.[50] According to this account, a young woman named Wang Ying had gone into business in August 1982, operating a streetside stall selling fruit, candy, cigarettes, and wine in the Eastern

District of Beijing. She was constantly badgered by local traffic safety authorities and public health workers, who in one instance assaulted her mother, at which point she closed down the business after only four months of operation. Thereupon,

> With the profound concern of the leading comrades of the central committee, the Beijing municipal government and Eastern District government all took this incident very seriously and instructed the relevant agencies to conscientiously make self-criticism of their "left" ideological influences and draw [the appropriate] lessons.

Two leaders from the district government (who were named in the report) paid a visit to Wang Ying's home and arranged for her mother to go to the hospital to have her injuries looked after, and gave her 700 yuan in compensation. They even made one of the public health inspectors in question (name also given) go and visit the mother in the hospital to apologize for assaulting her. Said an overjoyed Wang Ying,

> Now all our problems have been completely cleared up, thanks to the profound concern and support of the party and government in all areas. Starting today my "Wang Ying Fruit Shop" is officially back in business and everyone is cordially invited. I will also certainly operate legally according to government regulations and continue to improve the quality of service in order to serve my customers even better.

The publication of this story in Renmin Ribao ensured that the point would be taken by local-level cadres and individual operators all over the country.

Similar treatment from high officials and the press was accorded to the Li family introduced elsewhere in this chapter, and Shazi (Chapter 6 below.) In Shazi's case, the story of his problems with local officials was first publicized by a local newspaper, and then picked up by Guangming Ribao to give it

national publicity (with embarrassing consequences). Perhaps a more conspicuous example was Guangming Ribao's reporting of the "Wuhan incident" discussed below, in which the newspaper itself took credit for exposing the errors of the local cadres, and forcing the city's higher-level officials to take strong action.

A sample of the coverage of the individual economy in Guangming Ribao in the first few months of 1983 exemplifies the general approach to press treatment of the individual economy at the time, with a preponderance of stories whose main aim appears to have been the debunking of the idea that young people who become self-employed are condemned to a life of, in "Little Zhang's" words, "no political future, no economic security, no social status"--and no spouse.

In this sample, individual entrepreneurs are generally portrayed as prosperous, but not lacking in social conscience, hardworking, but not sparing of time to devote to worthy causes. Resentment about the relatively high incomes earned by some is counteracted by stories that emphasize the contributions they make to society and to the national economy as well as to their own pockets. Shazi, for example, is quoted as saying, "I can't use all this money myself; after I die I will still be giving it to the country, and not to my descendants."[51] (This claim was of course belied by later revelations about tax evasion.) A one-paragraph story with photo which appeared on January 18 concerned a former purchasing agent for the city opera company in Xianyang, Shaanxi province, who left his job to open up a stand selling grilled lamb kebabs:

> In fourteen months of business, his volume had topped 12,000 yuan, reaping a net profit of over 6,000 yuan ... He is up before dawn, he gives good service, his kebabs are tasty and reasonably priced, and as a result business is booming. He says, I rely on my own two hands to make a living, and now not only do I not take a salary from the state, every month I contribute taxes to the state.

The concern about political status is reflected in several stories which stressed the fact that operators of individual enterprises could be as successful as anyone else in the political sphere. One example was the Harbin self-employed photographer and Communist Party member Bai Shimin. Another was a female restaurant operator in Beijing who was chosen as a delegate to the Chinese People's Political Consultative Congress (CPPCC). In May there was a report about Wei Junhong, a youth who with his younger sister operated a restaurant in Wuhan, and was in the countryside buying eels for his customers at the very moment he was chosen as a delegate to the National People's Congress. He and his sister were praised for leading the self-employed workers in their district in subscribing to government bonds, making donations to all sorts of welfare causes, and setting up a fund amongst self-employed workers to buy study materials for deserving local schoolchildren.[52]

Perhaps the best example of the dual role of the media in transmitting central policy while at the same time serving as a forum for the views of the "masses" in the coverage of the individual economy, was a debate on the merits of individual operations published in Beijing Ribao (Beijing Daily) in August and September 1980. It was spearheaded by the publication on 18

August of a letter from a reader named Xiao Lingling, under the heading, "Let's not have a socialism which is neither fish nor fowl."

In a note accompanying Xiao Lingling's letter, the editors invited other readers to respond. By the time the debate was called off, about six weeks later, the newspaper had printed forty-three letters in twelve issues, including the letter which kicked off the debate. It received wide attention: the debate was summarized in Guangming Ribao and for foreign readers in Beijing Review.[53] Of the forty-two submissions chosen for publication, only six expressed reservations about allowing the individual economy to flourish. The rest were in favour, and in the process managed to cover all the arguments the central authorities had been making in favour of developing the sector.

The dissenters argued, however, that individual economy was not compatible with socialism, let alone communism. Xiao Lingling said it represented "retrogession" and warned of the dangers of reviving capitalism:

> ... if we don't open even more state-owned enterprises, but instead have these "mom and pop" stores (fufu shangdian), today they may be small stalls and shops, but tomorrow they could develop into big stalls and shops; the old capitalists haven't died off yet, and new ones have begun to emerge again; this is really unthinkable. Are we supposed to think we don't have the ability to run more and better state-run shops? Exactly what merits do these small shops and stalls have in achieving the four modernizations and constructing a civilized and scientific strong socialist country?

The thing to do, she said, was improve the operations of the state-run shops, especially to increase the quality and quantity of merchandise, and do away with "back-door" dealing

which meant that the best merchandise never even made it to the shop counters. Private marketing was encouraging speculators and criminals, and making everybody too preoccupied with making money. Concluded Xiao Lingling:

> We should progressively eliminate these degenerate (fuxiu) and backward things, and promote fresh and healthy things, and we also have to strengthen communist ideological education. I think that newspapers and radio, which are propaganda tools of the party, should not promote such things!

Another reader agreed with Xiao Lingling, complaining that the media had gone too far in their praise of the individual economy, which left readers with the impression that "state-run is not as good as collective, [and] collective is not as good as individual." After the questionable assertion that "in the ten years from the basic completion of the socialist transformation ... right up to the beginning of the cultural revolution, the quality of service in our industrial and commercial enterprises, their productivity, their enterprise management, all were incomparably better than at any time in the past, and the masses of the people were all very satisfied," the writer said that the acknowledged flaws of the state-run economy were not inherent, but were products of the deranged policies of the cultural revolution period. This letter also advocated concentrating on restoring the strengths of the state-run economy, rather than developing the individual economy and eventually having to launch another "socialist transformation" of private business.[54]

Another reader thought that while it might be all right to permit small private shops and stalls in small towns and cities, they were inappropriate for the big cities, and especially the capital, which, as the country's political centre and its symbol, should be even more modern and "civilised" than other cities. Permitting the proliferation "of a lot of messy and disorderly small shops and stalls" also contradicted the Central Committee's recently-published plans for beautifying the capital.[55]

Another reader plaintively asked, "What was the socialist revolution for?"

> Just because it is given the fine-sounding title of supplement to the socialist economy, it seems as if without this individual economy, the socialist economy could not thrive and prosper. We've gone through thirty years of socialist revolution, was it just so today we could develop the individual economy? Was it just to line the pockets of a few people? This is really hard for people to comprehend.[56]

Another letter said that individual operators, as private owners, were not entitled to join the Party.[57] The final dissenter disputed the notion that employing apprentices was not a form of exploitation. In a finely-reasoned argument under the heading "If individual firms' taking on apprentices is not a form of exploitation, then what is it?", this reader pointed out that the same newspaper had recently carried a report of master tailors in Beijing paying apprentices the small sum of eight jiao per day during their six months of training. Just like capitalists, these master tailors possessed the factors of production which allowed them to hire the labour of others, in fact to expropriate their surplus labour, which was worth far more than eight jiao per day in earnings for the master.

Although the reader did not doubt the honest intentions of these particular tailors, "we are worried; the propaganda in the newspapers is after all a form of endorsement, what it will give rise to is very difficult to predict."[58]

In the published summaries of this debate, the negative arguments, if mentioned at all, were simply refuted. Thus the paper did air the dissenting views, but in the end made it very clear that the views representing central policy were the "correct" ones. As the dissenting opinions made clear, however, the newspaper itself was playing a major role in promoting the policy which these correspondents questioned, and thus would have to take major responsibility for its outcome.

Indeed, some critics have charged that the propaganda in newspapers and on television has contributed to individual operators' fears of policy change. At times when the authorities in various places stressed stricter management of individual firms, the papers were full of stories of individual operators getting into trouble with the law. The effect was apparently to discourage not only the lawbreakers, but legitimate operators as well. A 1986 study by the Zhejiang provincial Administration of Industry and Commerce made the following charge:

> A lot of individual operators say, in 1984 propaganda in the papers and television pushed doing business, and Party and government leaders visited [us] with wishes for prosperity; that year was the "golden age" for individual firms, as long as you had a little skill you could do all kinds of business. In 1985 the newspapers and television stressed macro controls; there were all sorts of merchandise individual firms were not allowed to deal in, party and government officials visited poor areas and poor families, and investigation departments eliminated illegal individual firms. In 1986 the newspapers and television publicized [the idea of] those who get rich first pulling along those who get

> rich last (xian fu dai hou fu), and pursuing the path of common prosperity; every department stressed supervision and management of individual firms, the taxation organs investigated tax and added tax, one thing led to another. They suspect that party policy toward individual industry and commerce will change, and get ready to pack up their tents (yangi-xigu) [literally, lower the banners and muffle the drums.][59]

Apart from occasional comments such as this, the actual impact of press coverage can only be speculated on. For this study, however, the press has been an important source of information on what it is that central authorities wished the public to know about the individual economy during the period under study. One of these things, obviously, was that the antipathy of many cadres and members of the public toward the individual economy was contrary to central policy. It appears, however, that in a country unusually sensitive to nuances behind the propaganda, it might take many more years for the message to get through.

The "New Footbinding"

The attitude of many local-level bureaucrats toward the individual economy was summed up in a cartoon which appeared in the national newspaper Guangming Ribao in early 1983. It depicted an old woman in traditional dress impassively binding the feet of a tearful young girl. Printed on the girl's blouse were the words "geti shanghu"--individual shop. On the old woman's sleeve was written "mouxie guanli bumen"--various management agencies. The caption to the cartoon was "xin chanzu"--the new footbinding.[60]

It was an interesting analogy. In traditional Chinese practice, footbinding--apart from its erotic content--was a method of restricting the movements of women, and hence also their autonomy. Bound feet bound the woman to her family and household in a very literal sense; they both symbolized and reinforced her subordinacy, first to her father, then to her husband, finally to her sons. Within her assigned sphere, the woman could and did exert considerable power, but outside the household, she was like a hobbled horse.

By comparing the individual economy to a woman with bound feet, the cartoonist was graphically illustrating what had by early 1983 become a widespread and well-documented problem for individual entrepreneurs. Harassment and discrimination against individual enterprises by local cadres and regulatory agencies of various kinds has been a chronic and conspicuous problem throughout the period under study. What is remarkable is that this problem was so persistent, apparently as pervasive in times when the central government was strongly promoting the individual economy as it was at times when it was adopting a more critical stance. Likewise, as shown above, the newspapers were consistently assiduous in reporting incidents of harassment and criticizing the behaviour of the officials involved--indeed if they hadn't been, we wouldn't know in such detail what the problems were. But even press censure in concert with higher-level government agencies seemed to have little effect.

All this would suggest that negative and discriminatory attitudes toward the self-employed on the part of local regulatory cadres are deep-rooted indeed.

Bureaucratic Harassment

One of the earliest reports of cadre harassment concerned a "bowl-smashing incident" in the southern city of Changsha.[61] In August 1980, Xinhua news agency reported that an employee of the state-owned Red Star restaurant had smashed several ricebowls belonging to a neighbouring privately-operated food stall when some customers mistakenly left the bowls on tables belonging to the restaurant. The report asked, "... why did some responsible persons of the department concerned act to shield the smasher and blame the stall owner?" It turned out that after Red Star set up the stall at the end of 1979, it grossed about 120 yuan per day. When the private stall opened six months later, with better food, more variety, and lower prices, Red Star's daily turnover fell to twenty or thirty yuan. Instead of responding to the competition by improving their own business, they accused the private operator of stealing business away from them: "The more they looked, the redder their eyes got [i.e. the more jealous they got], the more they thought, the angrier they got, finally culminating in this bowl-smashing incident." As the Xinhua editorial concluded: "This incident reveals that some of our comrades still hold erroneous views with regard to the individual economy. They equate the individual economy with capitalism ..." It attributed such attitudes to "ultraleftist ideology"

incompatible with the constitution and current policies: "The idea of smashing others' rice bowls and establishing a monopoly for state-run commerce not only is harmful to our country and people, but also has an adverse effect on the development of state-run commerce itself."

Widely-publicized criticism such as this, however, seemed to have little effect. In March 1981, a sudden sharp decrease was reported in the numbers of individual businesses in Jinan, the capital of Shandong province. The newspaper Shichang Bao (Market News) cited a cadre in that city's Industrial and Commercial Administration who said the number of individual firms had decreased by 50 percent from the previous year, and was still falling. The paper asked, "What is the reason?" and answered, "It is because the individual undertakings are afraid of trouble." For example, a private shop selling roast duck was doing far better business than the nearby state-run outlets.

> Then came trouble. Its books were audited, questions were asked and the owner was interviewed. The department concerned also clamored about, 'levying heavy taxes' on this store. The store owner was scared stiff and thus closed it down. There were many similar cases.[62]

Similar problems were reported from around the country throughout 1981 and 1982, despite a concerted effort by the central government to promote the legitimacy of the individual economy and by the news media to publicize it in a favourable light. It can be assumed that the stories publicized in the media represented only a small fraction of the problems encountered by individual entrepreneurs at the hands of local cadres.

The State Council regulations of July 1981 should have provided some relief. Article 12 stipulated:

> The state will protect the legitimate activities, legal profits, and property of individually-operated enterprises. No operational activities of individually-operated enterprises which are permitted under government decree may be appropriated by any other unit; no goods or materials which have been included by the concerned departments in the local supply plan may be arbitrarily cut off. Except for taxes and fees paid according to state tax laws and relevant local government tax regulations, no department or unit may for any reason charge abritrary fees.[63]

The new provision apparently had little effect. Guangming Ribao in late 1982 gave a detailed account of one case which occurred well after the regulations were passed, that of the Li family in Beijing.[64] For three generations Li Qinshi's family had operated a shop selling a local specialty called baishui yangtou (literally, boiled sheep's heads). In 1956 the business was closed down and Li was given a job in a bicycle factory. In 1982, in light of the new policies, Li taught his daughter and one of her friends--both unemployed middle-school graduates--the art of making baishui yangtou, borrowed several hundred yuan to buy the necessary equipment, and passed on to his daughter the special knife that had been in the family for over a century. In July 1982 they were granted an operating permit and were cleared by district health authorities.

Just as they were about to open for business, the family was notified by the department in charge of civic appearance (shirong guanli bumen) that they could operate a stall only in their small lane rather than in a larger thoroughfare. Since this would obviously restrict their visibility to potential

customers, they appealed the ruling three times before finally obtaining permission to do business every evening after six o'clock at the entrance to the lane. They spent over 200 yuan building an enclosed shop, but the same agency required them to spend another 200 yuan converting it to an open-air stall covered with an awning. They also had problems obtaining a reliable source of supplies. The state-run slaughterhouse restricted them to 200 jin of meat per month.[65] Since on a good day they could go through thirty or forty jin, Li was forced to spend his off-work time travelling to peasant markets in the far suburbs of Beijing in search of free-market mutton.

Despite these setbacks the business was a success, and contributed substantially to the family income. In November 1982, however, a cadre from the district health station informed the Li family that in order to conform to health regulations, they would have to have three separate workrooms--one for processing the raw meat, one for drying, and one for cooking. Since the entire family lived in two rooms, this was an impossible demand to which they responded by relinquishing their business permit.

At this point the higher-level authorities (and the press) intervened. The plight of the Li family "came to the attention" of the head of the municipal industrial-commercial administration and the municipal government; one of the city's vice-mayors personally exhorted the relevant departments to reform their

attitudes. "Baishui Yangtou" was back in business--a winner in the conflict between high-level support and low-level obstructionism in the treatment of individual firms.

This was clearly not an isolated case even in Beijing. An article published in Zhongguo Caimao Bao (Chinese Finance and Trade News) around the same time, discussing the general situation of the individual economy in the capital, charged that "the municipality does not have a positive attitude" towards the development of the individual economy."[66] The authors cited the total absence of self-employed representatives in the municipal or district people's congresses and the people's political consultative congresses, and the lack of model workers for the individual sector. No-one was paying attention to admission of individual operators to the Party or Youth League. Formation of a municipal association of individual workers had been "brewing for a year without results." The agency in charge of civic appearance in the Fengtai district (in the southern part of the city) had banned individual peddlers from its streets during recent high-level government meetings. In another district, the same agency had removed advertisements of individual businesses from telephone poles, claiming that since telephone poles were state property, only state-run businesses could advertise on them.

The article also charged that municipal regulations barred individual businesses in Beijing from operating on the twenty largest streets of the municipality, that many districts of the city had similar regulations banning them from major thorough-

fares, and that individual businesses were not permitted to trade on streets jointly managed by two departments. The previous April one large state-run clothing corporation had stopped paying pensions to retired workers operating individual businesses, although this contravened published municipal policy. One of the factory managers reportedly said "... even if they were documents from the central government, we still would not pay!"

Moreover, because they allegedly suffered from the "'red-eye sickness' of equalitarianism", cadres were finding ingenious excuses to extract "squeeze" from individual operators. A pavement shoe repair business located in front of a state-run store was charged a "land sanitation tax" for use of the sidewalk. Some street offices were forcing individual businesses to take on employees (presumably of their choosing) and then closing them down if they refused to honour the "contracts" forced upon them.

The supplementary regulations passed by the State Council in April 1983 addressed these problems in far stronger language than the original regulations:

> The legitimate rights and interests of the individual industrial and commercial households are protected by the state according to law, and no departments or units may infringe upon them. The individual industrial and commercial households may lodge complaints with the local people's governments or the people's governments at higher levels or they may bring suits to the people's courts according to law against those who infringe upon their legitimate rights and interests.[67]

As noted previously, the publication of these supplementary regulations was quickly followed by a crackdown on illegal economic practices which provided the opportunity for renewed

harassment of legitimate individual operations as well, the regulations notwithstanding. One of the most conspicuous cases occurred in the Yangtze River port of Wuhan during the last few months of 1983.[68] In a front-page article on December 30, Guangming Ribao reported that between September and December, over five hundred individual businesses had been raided by local authorities in charge of civic appearance and traffic control. These licensed operators had had their licenses seized, stalls dismantled and furnishings and equipment confiscated, some of it never to be seen again. According to the city's Administration of Industry and Commerce, 80 percent of these businesses operated from fixed locations which would have been approved--by the same agencies now attacking them--at the time the license was issued, therefore they could not have been "influencing urban appearance and traffic" as the authorities charged. They were forced to pay hefty fines to get their licenses back.

The report also charged that individual businesses had been singled out for special treatment. One self-employed photographer, who was also a delegate to the national Communist Youth League Congress and a provincial model worker, reported that at a particular location only her camera and those of three other individual operators had been seized, while state-run photography stands had been left alone. With the intervention of higher-level government cadres she got her camera back, but only after paying a storage fee.

Although these events took place in the context of a nationwide crackdown on illegal practices by individual operators, the newspaper charged that the Wuhan authorities had gone too far in taking the law into their own hands, in violation of the constitution and accepted adminstrative procedures. According to an editorial comment accompanying the report:

> This practice of wanton discrimination, censure, and attack against individual commercial enterprises, is an objective manifestation of "left" ideology. We hope that the relevant agencies in Wuhan will resolutely handle this matter, immediately restore licenses and equipment which were arbitrarily seized, pay compensation for anything destroyed, and adopt realistic measures to uphold the legal rights and interests of individual commercial enterprises.

Five days later, the newspaper announced that following its initial report, the First Secretary of the Wuhan Party Committee made a telephone call to the city's mayor, in which he reportedly said:

> We have to handle the criticism of news units correctly. If the comrades in charge of civic appearance have a tendency to violate law and discipline, we have to make a thorough investigation. We are the servants of the people, not their masters. What if these individual firms had been our superiors, would we still have smashed their ovens? Are we or are we not supposed to be treating individual firms as equals to state-owned and collective enterprises?

The First Secretary set up a meeting involving the heads of all districts, the city and district departments in charge of civic appearance, and the head of the Administration of Industry and Commerce. They decided first that every district would make sure that unjustly confiscated licences were returned before 6 p.m. on January 4, with questionable cases turned over to the AIC for further investigation; secondly that damaged tools, furniture, and equipment would be returned or compensated; third,

that they would ensure that everyone involved be made aware of the existing policies protecting individual firms and "earnestly study and implement the relevant Party regulations and rules [so that] this tendency to violate law and discipline would not be allowed to arise in the future"; and finally that they would strengthen education and management of individual firms so that they would cooperate with the cadres in charge of civic appearance in their legitimate work.

Many of the city's top officials paid personal visits to individual operators on New Year's Day, and on January 2 the city government held a reception for representatives of the self-employed, in which they "listened attentively and noted down the criticisms and recommendations of these individual operators, and instructed relevant departments then and there to investigate and come up with solutions." The city's mayor "represented the city government in offering apologies to the individual firms that had sustained losses and inconvenience," and promised to do better in the future. Then the leadership of the department in charge of civic appearance "made a sincere self-criticism." One of the individual operators who had been victimized reportedly replied that he appreciated the concern and support of the Party and government, and that,

> ... since we are the masters of the country, we have a responsibility to take care of ... civic appearance. From now on, in problems of civic appearance, sanitation, and traffic, all the office of civic appearance has to do is clearly explain the situation and their requirements to us, and we will certainly cooperate with [them] in doing their job.

In a follow-up on January 9, Guangming Ribao reported that the authorities were busy carrying out the four points agreed upon in the meeting the week before. All twenty-seven arbitrarily confiscated licenses had been returned before the deadline, and seized or damaged property had either been returned or compensation paid. The deputy head of Wuchang district personally led a delegation of offending municipal employees on a visit to Xu Li, the provincial labour model whose camera had been seized. They apologized and refunded the "storage fees" they had charged for keeping her camera.

Despite such kid-glove treatment by higher-level officials, incidents such as these clearly had a serious impact on the success of individual businesses, as well as on the operators' confidence in their future prospects.

Bureaucratic Rigidities

It must be admitted, however, that at times it is difficult to distinguish deliberate harassment or discrimination against individual operators from various forms of rigidity in bureaucratic structures built up during the decades of deliberate neglect of the individual economy. When an individual tailor cannot get a special kind of thread, is it because the wholesale supplier simply refuses to sell it to her, or because she can only buy this particular thread with a special permit that all state-run or collective clothing factories are issued as a matter of course, but that no-one has thought to issue to individual firms? In large part this kind of problem arises from the fact

that for three decades there was a systematic attempt to do away with the sector, so that when the decision was made to revive it, it was in the context of a system that quite literally had no place to put it. Bank accounts, credit arrangements, operating space, supply channels, even administrative systems, all had to be rebuilt from the bottom up. Even by the end of 1984 it was clear that the resulting systems and structures had some very serious deficiencies.

Very soon after the resurgence of the individual economy began in earnest in 1980, complaints began to surface which indicated that not enough attention had been paid to the practical requirements of running a business. Since each locality was groping its way along in the absence of clear central regulations, there were large variations in the way such matters as operating space, materials supply, and banking arrangements were being handled. Much of it seemed to be done on an ad hoc basis. While some of the problems encountered by individual firms may have been deliberate neglect or discrimination, at least at the beginning many of them could clearly be attributed simply to lack of advance planning.

A letter to Zhongguo Qingnian Bao in September 1980, headlined "The worries of self-employed youths," described the situation in Harbin, where licenses had already been issued to 567 self-employed young people.[69] It voiced three concerns: politically ambitious self-employed youths had no way of participating in Youth League organizations; they weren't being allowed to take part in technical upgrading courses organized by

the city and districts; and they had problems obtaining materials and supplies for their businesses. All of these basically came down to the fact that no-one had thought about the procedures necessary to enable individual operators to go about their business as could employees of state-run enterprises. Existing procedures had been developed with state-run and collective units rather than individuals in mind.

The two areas where this was most evident were material supplies and operating space. A major problem for individual businesses has been ensuring steady sources of supplies at reasonable prices. The letter cited above expressed the often-voiced complaint that the state-run wholesale outlets had a policy of first supplying state-run enterprises, then collectives, and finally individual businesses: "As a result wholesale goods purchased by individual firms were very often of poor quality and insufficent quantity, so they had no other alternative than to spend more money to buy negotiated-price goods." According to a June 1981 report from Beijing, a certain kind of hairdressing used by barbers was sold state-run and collective barbers at three yuan a bottle, and to individual firms at five yuan. Some items could not be sold at all to individuals because there was no provision in the suppliers' plans for such sales.[70]

The operator of a bicycle repair business in Beijing had trouble buying essential spare parts:

> Carrying a letter of introduction from the Administration of Industry and Commerce, he went to the commercial wholesale department, hoping to buy some screws and small fittings for bicycles. The cadre at the wholesale department said, "We only take vouchers, we don't take cash, go back and settle this with your district." He went to the district repair company material management office, where he was told "You want to buy materials? Even though you've got permission to run a repair stand, you've still got problems!" This individual firm could only go and buy parts at retail prices from a store, and then sell them at the original price to the customer, not making any money for himself.[71]

The basic administrative structures to handle such problems were put in place by a series of State Council decisions which came out from late 1980 through 1981, culminating in the State Council's comprehensive regulations of July 1981 (summarized in Chapter Three above.) Over the years all localities instituted local measures which set up specific procedures for carrying out the new policies.[72] Nevertheless, reports published up to the end of 1984 continued to point to lack of adequate implementation.

A report from Guangzhou in June 1982 contained a typical litany of complaints. It noted that 30 percent of the individual businesses in that city had at one time or another suspended their operations. The major reason cited (apart from complaints about excessive fees and fines) was the difficulty of finding suitable operating premises:

> It is no longer permissible to set up stands along the sidewalks of first, second, and third class streets. The original stands are being readjusted and relocated. However, many of the relocated individual businesses have, for lack of better alternatives, moved into side streets and alleys, [or] been forced to pull up stakes because of the lack of business.[73]

Other reasons for suspending business were difficulties in obtaining fuel, materials, and water and electricity installations.

While many of these problems are purely administrative, the fact that they have proven so difficult to solve does seem to indicate, as many critics have charged, that administrative cadres dealing with individual firms, simply don't care enough to put much energy into helping them with these practical difficulties.

The discussion so far has demonstrated the strength and stubbornness of cadre antipathy toward the individual economy. The next section will explore the reasons for the popularity of the "new footbinding."

Where Do "Leftist" Ideas Come From?

In reports of incidents of harassment of individual firms, most of the blame has consistently gone to the basic-level regulatory agencies and their cadres. Bureaucratic harassment is generally portrayed as a manifestation of "leftism" (which, when enclosed in quotation marks, refers to the now-discredited radicalism left over from the period before 1978, generally associated with the nefarious influence of the Gang of Four.) For example, an official of the General Administration for Industry and Commerce, in an October 1982 interview, said the main reason for the "sluggish development" of the individual economy over the previous six months was "leftist ideology" which had "resulted in the adoption of a series of discriminatory and

restrictive measures."[74] About the same time, a long article in the journal Jingji Guanli (Economic Management), after describing the problems individual firms were having in securing operating premises, supplies, etc., came to the same conclusion that:

> ... after all these problems have something to do with the views and cognition of the people, especially of some of the leading cadres ... Because they have been rather seriously affected by the "leftist" ideology, they have little understanding of the line, principles, and policies being implemented since the [Third Plenum]. Some regard the development of the individual households as expedient ... Some even regard this as a kind of "retrogression" with the result that capitalism will be developed. ... This is the root of impediment to the development of the individual households.[75]

Even as late as mid-1984, "leftism" had still not disappeared from the scene, if a report from the Guizhou provincial newspaper is to be believed:

> ... the pernicious influence of "leftist" ideology has not yet been liquidated. ... The view is also still held among cadres that "the individual operators have reached the limits of their development," while actually a comparison with various other areas of our country reveals that the development ... is still rather far away from its limits. ... It is therefore presently still necessary to liquidate the pernicious "leftist" influences, to raise the political status of the individual ... operator and to encourage [them] to pursue their business activities courageously, expand business, and contribute to the "four modernizations."[76]

For outsiders, it may sound simplistically dogmatic to attribute obstructionist cadre behaviour to nothing but residual "leftist" influences.[77] In the complex world of Chinese politics, however, the term has many connotations, which, moreover, can shift with the political tides. Since 1979 the term has been associated specifically with the "radical" ideas and practices associated with the "Gang of Four"; it has therefore been applied to anyone opposed--for whatever

reasons--to any aspect of the post-Mao reforms, by the leadership that is responsible for those reforms. Although, as William A. Joseph has pointed out, "the Chinese view of what constitutes concrete manifestations of ultra-Leftism in ideology and policy-making politics has changed dramatically in the early years of the post-Mao era," the basic idea still seems to correspond to the definition Mao offered in his 1937 essay "On Contradiction":

> The thinking of "Leftists" outstrips a given stage of development of the objective process; some regard their fantasies as truth, while others strain to realize in the present an ideal which can only be realized in the future. They alienate themselves from the current practice of the majority of the people and from the realities of the day, and show themselves adventurist in their action.[78]

After Deng Xiaoping regained his leadership position, any lingering signs of "leftism" were thoroughly expunged from the official ideology of the post-Mao political world. In a press that is controlled by the same leadership which conducted the purge, the opinions of "leftists" were rarely heard. The only clues to their thinking come from the attacks of their opponents. 79

Whatever term is chosen to describe it, however, there can be no doubt that since 1978 there has been considerable opposition, from the top ranks of the Party on downwards, to many of the reformist policies adopted by the post-Mao leadership. The following section will first indicate and then explore in more depth some of the sources of this opposition.

First of all, it may indeed be true that much of the resistance to the development of the individual economy has stemmed from genuine ideological conviction which has produced differing ideas about how a socialist economy should be structured. Much of it, however, obviously has roots other than a commitment on the part of cadres to egalitarianism or other supposedly "leftist" goals. In part it would seem to come from a tension between those whose job it is to make policy, and those, particularly at the local level, who are responsible for implementing it. Simplistically stated, where policy-makers (who are of course not a monolithic group themselves) tend to see the forest, the implementers see the trees, which do not always consist of healthy foliage. Furthermore, the higher up the policy-makers are, the less likely they are to see the problems at ground level.

This might also be interpreted as a power conflict between centre and localities--at least some localities. It is quite obvious that some parts of the country, whether provinces or indvidual cities, have been much more active in their promotion and support of the individual economy than others. And even within provinces or cities, the agencies which tend to be the mouthpieces for central government policy (notably, the Administration of Industry and Commerce network) often seemed to be in conflict with those whose responsibilities are more purely local. (See for example, the case of Wuhan discussed above.)

Apart from functional conflicts such as these, for local cadres there are apparently two other basic sources of ambivalence or opposition to the individual economy: the practical day-to-day headaches of supervising and controlling an economic sector consisting of a multitude of very small, dispersed, and often very informal operations, run by people who are almost by definition anti-bureaucratic; and cadres' fear and resentment at seeing their own power and interests eroded by a group of unmanageable petty entrepreneurs, especially when their incomes in many cases far exceed their own. Even at higher levels, the fear of luan (chaos) is widespread; at lower levels it appears to be endemic.

It will be obvious that these are tentative propositions. A country as large and complex as China is a tapestry in which many strands of interests, loyalties, and commitments are interwoven. It could very well be, for example, that much of what appears as hostility toward the individual economy is actually something else--a working-out of less public issues using a small and vulnerable sector as a convenient battleground.

This having been said, the rest of this section will examine in more detail some of the elements which most apparently contribute to cadre ambivalence or antipathy toward individual business.

The first is outright opposition to the current central policy of promoting the individual economy, among cadres who question the wisdom of developing a significant private sector in an economy that is claimed to be "socialist", if one defines

socialism in terms of central planning and public ownership. In this view the development of the individual economy is seen as a "retrogression" which leaves the door open for capitalism to re-emerge. As an article in Beijing Ribao pointed out in the summer of 1980:

> At present, some cadres still feel: "Individual firms come under the category of private ownership, as socialists what are we doing developing private ownership?" [Others say] "If we make it easy for them and allow them to become familiar with the benefits [of private enterprise], won't this just shake the morale of staff and workers of state and collective enterprises?"[80]

For cadres who feared for the future of the socialist economy, the solution to such problems as low productivity and inefficiency in the state sector was not to promote the private sector, but to improve the operations of state-run enterprises themselves.

In an attempt to find out just how widespread views such as these were, researchers in Harbin interviewed forty cadres who had "direct contact with individual employment."[81] They found that their attitudes fell into three basic categories: only twelve (30 percent) were "strongly supportive"; eighteen (45 percent) were "perfunctory or indifferent", and ten (25 percent) were "opposed" to the development of the individual economy as a channel for employment.

The authors reported that cadres in the second group "felt there was 'no great need' to open up avenues of self-employment, and that those who have dealings with individual firms are

'looking for trouble.' But because there is a clear policy at higher levels, they cannot just ignore it, therefore they have adopted a perfunctory attitude."

The third group, those they believed were truly opposed to the policy, "on the surface did not say clearly that they opposed individual employment, but from the way they enumerated the many 'indictments' (zuizhuang) of individual employment, it was clear that deep down they opposed opening up avenues of self-employment."

The conclusion of these authors was:

> ... the crux of the problem is that some cadres equate individual economy with capitalism. They feel that developing the individual [economy] is the same as developing private ownership, it's something different from socialism, and has no positive role to play with regards to socialism; it breaks "the law," it is "regressive" and it should not be supported.

To some critics, even a seemingly lenient attitude might be evidence of opposition in disguise. One interesting commentary on problems of managing the individual economy, published in Renmin Ribao in the autumn of 1983 (at the height of the spiritual pollution campaign), noted that opinion among "certain cadres" about the individual economy was sharply split between two "diametrically opposite" poles: "enthusiastic support" on the one hand and "deliberate opposition" on the other. Members of the second group, however, had shifted their tactics:

> At the beginning they openly locked horns with post-Third Plenum policies, at any rate they hated the mere sight of individual economy and did their best to suppress and hack at it. Later on they felt it was impossible to resist it, so they simply turned a blind eye, washed their hands of it, and let it run its course. No matter whether it was tough opposition or weak support, the intention was to ensure that it could not achieve rational existence and development. The

> unhealthy elements that have emerged in the process of restoration and development of the individual economy, are linked to this laissez-faire behaviour.[82]

Many cadres simply shared the widespread belief that, despite central-government statements to the contrary, promotion of the individual economy was nothing more than a provisional job-creation measure which could easily be reversed when conditions changed, or was part of a general package of reform which could disappear with a major change in ideological orientation among the top leadership. Either way, any official who appeared to be enthusiastically supporting the growth of the individual economy could later be made to suffer for it. As a result, said one writer:

> In dealing with the [individual] economy, some leading departments refuse to act according to policy. There is a tendency to act according to the "way the wind blows." They believe that the policy to permit the existence of the [individual] economy is only an expedient measure. Therefore whenever the opportunity arises they make trouble.[83]

In terms of political survival, if the policy did turn out to be nothing more than a temporary expedient, it would be far safer to appear to have opposed it from the beginning rather than risk eventually being labelled a "capitalist-roader" for supporting private enterprise. After all, similar policies had been adopted in the past, and then reversed during subsequent radical periods; Liu Shaoqi was not the only official publicly reviled during the cultural revolution for his easy-going attitude toward private business in the mid-1950s and early 1960s. As one cadre said in 1981, "I was criticized during the

great cultural revolution because I had developed individual households and now it is necessary to consider carefully in developing such households."[84]

Apart from this kind of politically-based resistance, there are also more pragmatic reasons for cadre opposition to the individual economy. On an operational level, the proliferation of individual firms has meant a significant loss of bureaucratic control over a large segment of the commercial economy, something which must be very disturbing to a large number of cadres who see their job as keeping a firm grip on the economic life of the country. One factor that has been voiced repeatedly is the fear of luan--disorder or chaos. As the previous chapter has demonstrated, the proliferation of millions of small, dispersed, often itinerant operations has in fact created vast administrative problems for understaffed regulatory agencies. In this light it seems significant that so much of the harassment of individual firms has apparently come, as in the "Wuhan incident" from agencies in charge of matters like civic appearance, traffic control, sanitation, market management, and taxation, that is the "front line" agencies which deal with individual firms on a daily basis.

Another very important source of cadre harassment of individual firms has obviously been a very business-like desire amongst commercial cadres to cripple the competition. One of the stated purposes of promoting the individual economy has been to create competition in the marketplace, in order to improve the performance and productivity of the publicly-owned sector. As

Chapter 1 indicated, in the period under study, while the overall volume of retail sales increased for the state-run and collective sectors as well as the individual economy, the latter experienced by far the most rapid absolute growth, and also the most rapid growth in share of the market. Not all state-run enterprises or cadres involved in commerce have taken kindly to the rapid erosion of their three-decade monopoly. As Solinger has aptly pointed out:

> Commerce is the only economic sector in which the cadres, staffing their own separate ... business, have stood in direct competition with the objects of governmental regulation, the private merchants. This rivalry ... has remained important in all subsequent interactions between the state commercial bureaucracy and the private sector. Driven by their obligation to fulfill state-designated quotas in business volume, commercial cadres have generally been a potent force dedicated to the policing of private peddlers and other traders. ...
>
> The result of this contention has been that the cadres, striving to obtain for their organs (and ultimately for the state) the major share of the goods and of the commercial profits accruing from the circulation of goods, have often tried to eliminate and themselves replace the private sector. This is the prime motive that fuels the policing approach to small traders.[85]

While one may question whether competition is the "prime motive" fuelling cadre harassment of individual firms, it is certainly an important one. Said a report on the Changsha "bowl-smashing incident", in which the hostile actions of an employee of a state-run restaurant were supported by local cadres,

> ... there is the allegation that allowing the operation of an individually owned catering service is taking away business from the state-run restaurants. ... The correct steps to be taken by state-run enterprises under these circumstances should be to continue to improve their management and the quality of their service and to better develop themselves through competition with others.[86]

There have been many other cases in which dislike or fear of competition was a major factor fueling cadre harassment of individual firms. This came out very clearly in the "Shazi Guazi" case (see Chapter Six). In a similar vein, Beijing Ribao in April 1981 reported a case where a state-run butcher shop used unscrupulous methods in competing with an individual meat peddler. In a suburban market in Beijing, the peddler set up a stand across from the state-run food store, selling fresh pork at a very slightly lower price. The store's employees retaliated by setting up a rival stand selling meat for a lower price still. After they succeeded in driving him away, they closed up their stall and raised the price back to normal. The report noted that "cases like this of discriminating against individual [businesses] and elbowing aside collectives have also occurred in the city and other suburban districts." Once again, such behaviour was attributed to lingering "leftist" influences.[87]

Apart from the concrete economic threat of competition, cadres involved in commerce might also see the success of particular individual firms as an indictment of their own business abilities, or more generally, of socialist planning and administration. Alec Nove's observation about the almost-total prohibition of private enterprise in the Soviet Union has some relevance here: "It is thought to be highly objectionable if private enterprise turns out to be very profitable, although the size of the profit is usually a measure of the extent of the failure of the official distribution network."[88] (The word "although," however, should probably be replaced by "because".)

As Nove goes on to point out, "If the state-planned provision is adequate, there is usually no incentive for the 'privateer'." It seems clear that the proliferation of individual enterprises in certain trades, and the phenomenal success of at least some individual entrepreneurs, is extremely embarrassing to cadres running parallel enterprises in the state sector.

The conspicuous economic success of some individual businesses also fuels another source of cadre opposition to them: jealousy. One study referred to the "'red-eye sickness' of equalitarianism" as an important factor in cadre attitudes. It is easy to imagine the resentment a local-level cadre on an income of perhaps sixty yuan a month might feel toward some stall-owner earning several times his or her salary, particularly if that stall-owner is dodging taxes or otherwise flouting the law. After the Changsha bowl-smashing incident, cadres reportedly told Xinhua reporters: "The money we earn is turned over to the state, but the individual firms' earnings line their own pockets; they fatten themselves up while starving the state." As one Beijing restaurant owner blithely pointed out to a Beijing Review reporter, "My pay is higher than that of our mayor."[89]

It should also be remembered that during the period under study, cadres themselves were the target of a rectification campaign that hit both party and government from 1978 onwards.[90] In part an effort to remove politically undesirable cadres, especially those who advanced their careers during the cultural revolution period, the move was also designed to curb corruption, reorganize and rationalize the government and party bureaucracy,

and reform the personnel system. The latter was intended to raise the level of professional specialization, promote recruitment on the basis of competence rather than political reliability, nepotism, or cronyism, and make room for the promotion of younger cadres. There have also been some efforts to introduce responsibility systems for cadres.

At the same time, the reforms also coincided with a trend toward bureaucratic decentralization. The General Administration of Industry and Commerce, responsible for the overall supervision and administration of the individual economy, was involved in a 1982 reshuffle of organizations under the direct control of the State Council.[91] It is easy to imagine that the cadres in that agency or its local branches were worried about hanging on to their jobs. The effect of their own insecurity on their treatment of individual operators would be hard to calculate, but it would be surprising if there had been no impact at all. Likewise, local cadres in agencies with day-to-day dealings with individual firms might also have been hit by purges or reorganization that left them with negative feelings about the post-Mao reforms in general, which could easily be taken out on insignificant and powerless private operators.

Some of the apparent conflict between centre and localities over treatment of the individual economy might also have had its source in the move to decentralize the bureaucracy. According to Morgan,

> Under decentralization, local units have to rely on their own resources to meet many administrative expenses but at the same time have greater freedom to allocate their resources to their best interests. It is difficult for the center to obtain compliance from the lower-level functionaries if central policy should conflict with local interests.[92]

Finally, it should be obvious that most of the reported incidents of harassment of individual firms were committed by basic-level cadres at the local level. Many writers have noted the general problem Harry Harding identifies as "noncompliance, sluggish compliance, or partial compliance with central directives" by such cadres, which he says has tended to occur "when policy directives were vague, particularly in periods of liberalization, consolidation, or retrenchment." At such times (for example, in the early 1960s after the Great Leap Forward) "central leaders called for a retreat from the unrealistic policies of the preceding campaign, but they gave few clear guidelines as to how far that retreat should proceed. Not surprisingly, the responses of lower-level officials sometimes went beyond what central leaders were prepared to tolerate."[93]

Compliance problems have also occurred, according to Harding, "when there was serious division over policy among the central elite," and cadres knew "that it would be relatively safe to ignore unpopular directives or to implement them in an unenthusiastic manner." Similar problems have occurred "when the program in question ran counter to bureaucratic interests."[94] Since all these conditions were present to some extent in the

period under study, it is not surprising that many basic-level cadres would react by undercutting a policy for which they may have had no particular affection.

David Zweig has examined the patterns of opposition and support of basic-level rural cadres toward the agricultural responsibility systems introduced after 1978, and has come up with some conclusions that might be applicable here as well. First of all, he says, some cadres were opposed for ideological reasons to policies which would promote income disparities among the rural population. But "the major determinant of the ebb and flow of this policy has been how it has affected the economic and political interests of the peasants, middle-level bureaucrats and central elites."[95]

The worst culprits, according to Zweig, have been middle-level bureaucrats at the local level (province and below) and local brigade leaders:

> In the early stages of reform these leaders were afraid to implement the new incentives because in the future such policies might again be called "capitalist." Particularly in localities heavily influenced by rural leftism, local leaders remembered that they had been criticized recently for merely thinking of using them. ... As the reformist faction consolidated power, local bureaucrats grew more convinced that they would not be criticized for following the "capitalist road" if they implemented more advanced systems of responsibility. Nonetheless, because the policy conflicted with their personal interests, middle-level bureaucrats continued to oppose these changes.[96]

He also notes that the reforms were most successful where "pressure from above met with support from below, squeezing the middle-level bureaucrats who may have opposed the policy."[97] Much the same seems to have occurred with the individual economy,

where pressure from high-level administrators combined with agitation from individual operators, forcing middle-level bureaucrats at the local level to keep their cadres in line.

Finally, note should be made of a very general but uneven tendency toward local autonomy in Chinese politics. Many writers have discussed the "cellular" structure of the Chinese economy and administration, particularly at the provincial level, at various periods. Although there has been much controversy over this proposition, it seems that the tradition of local autarky, reinforced by China's size, complexity, and local diversity, has meant that since 1949 (as well as before), there has been considerable variation in the way in which central policies have been implemented in different localities. Certain trends toward bureaucratic decentralization at various times such as 1957-58 and after 1978 have reinforced this tendency. To see what specific effect this has had on treatment of individual enterprises, of course, would require detailed empirical study at the local level, which is unfortunately beyond the scope of the current study.

To conclude, then, so-called "leftist" practices in the treatment of the individual economy actually come from many different sources. Genuine radicalism should not be discounted, but as the foregoing discussion indicates, it must be balanced against other considerations, especially the priorities and interests of the cadres and agencies concerned.

Historical Roots of Ambivalence Toward the Individual Economy

Harassment of individual operators, discrimination and neglect, can only be partially accounted for by the explanations outlined above. Underlying these proximate causes are attitudes which apparently go much deeper than parents' practical concerns about their children's or their own future security, or cadres' inclination to crush competition in business, or the fears of "leftists" about the possibility of capitalist restoration. What seems to give these fears and concerns their strength is the fact that the lessons learned from the harsh treatment of the individual economy after 1949 are reinforced by the convergence of two separate streams of thinking about petty commerce, one "Chinese" and one "Marxist." Ambivalence about commerce in general and petty commerce in particular can be found in both traditions. For Marxists there is the added dimension of negative attitudes toward private trade in socialist economies. Together with the vicissitudes of the individual economy up to the end of the cultural revolution decade, these ideas provide a seemingly unshakeable foundation for prejudice against small-scale private trade in post-1978 China.

The Individual Peddler in Traditional China

It is frequently noted by historians that in the social structure of "traditional" China, merchants (*shang*) ranked at the bottom of the idealized social scale. At the top were the scholar-officials (*shi*), followed by farmers (*nong*) and artisans

(gong). At its lower end the shang category merged with a stratum that was simply outside society, including actors, beggars, prostitutes, and yamen runners. However, there are several reasons why this idealized hierarchy should be seen as just that. The very passage in the Kuan-tzu (a collection of writings attributed to a minister of the state of Qi in the 7th century B.C.) which introduced this hierarchy introduced a note of ambivalence by explaining that "these four [classes of] people are the stone [foundation] of the state."[98]

Nevertheless, the first discussions about merchants during the Warring States period (403-221 B.C.), according to Chan, "generally agreed that merchants should be disesteemed because they were non-productive and parasitic." Morover, in a fundamentally agrarian society,

> Merchants were suspect because their ways were so different from the farmers'. Because of his mobility, a merchant tended to pick up strange ideas from faraway places. Furthermore, his functions put him in contact with a wide variety of social groups within the community, ... He even communicated with foreigners and strangers. With his varied experience, he was more likely to question the ways in which his own society was run and controlled and to have less respect for the agrarian social elite. Hence, the merchant by definition was likely to incite disturbances.[99]

Hence as early as the Han dynasty, sumptuary laws were passed to restrict the luxuries allowed to wealthy merchants and state control was imposed over their most profitable lines of business.[100] Similar restrictions persisted through succeeding dynasties although they were gradually relaxed as merchants and trade came to enjoy a more important and respected place in society. There was considerable room for social mobility, with

wealth as the vehicle. Rich merchants could buy their way into the literati, or place at least one of their sons into it through the examination system. Although at various times officials were prohibited from engaging in trade, many did so nevertheless, through agents or using assumed names, and gradually this became a more accepted practice.[101]

Moreover, many quotations from classical works can be found which argue the importance of commerce in assuring the well-being of the nation. The Classics (a body of writings dating back to the ninth to sixth centuries B.C., which formed an important part of the textual foundation of Confucian statecraft and as such were transmitted from one generation of scholar-officials to the next through the bureaucratic examination system), had a generally favorable view of commerce. However it was shared only partially by later writers such as Mencius and Hsun-tzu. Says Metzger, "these founding fathers of Confucianism had an outlook which gradually became the orthodox one in imperial China, namely that commerce has both desirable and undesirable forms."[102] In this orthodox view, commerce was necessary to the smooth functioning of the economy, but merchants' activities had to be carefully monitored: "The officials' basic attitude toward commerce was not that it was a necessary evil but that it was a necessary good likely to turn evil unless properly controlled."[103] Thus very early on, ambivalence became the hallmark of official attitudes and treatment toward merchants.

In part this was because, whatever the private thoughts of officials might have been, they needed the merchants, especially the rich ones. Several authors have written of the "co-optation" of merchants by the state to maintain state control of key sectors of the economy. The salt monopoly, for example, was actually operated by wealthy and powerful merchants rather than state functionaries, whose role was to supervise and to make sure the merchants' interests were not served at the expense of either the state or the people.[104] At the same time, as Susan Mann has pointed out,

> It was the wealthy merchants--particularly salt merchants--who bore the brunt of discrimination fostered by the fourfold ranking system. They were the ones vulnerable to charges that they privatized public wealth for selfish ends. And of course it was they who controlled many of the resources the state sought for "public" purposes. Therefore official ideology, though straightforward on the hierarchy of values in the political economy--farming was the root, commerce the "branch tips" of the state--accomodated the many conflicting roles implied by "merchant" status. Commerce, like the merchant, was acknowledged to be essential to the functioning of the agrarian polity as a whole.[105]

A somewhat different attitude, however, developed toward small-scale merchants and peddlers. Within the <u>shang</u> category there were distinctions based on wealth and on scale of operations. Eberhard writes that "there has always been in China a distinction between the small pedlar or the small grocer in a shack on a street corner, and the big businessmen. Often, the former were not even classified as <u>shang</u>, being essentially farmers selling their produce as a sideline."[106]

Likewise, the treatment they received from the state was similar to that accorded to farmers. According to Mann,

> In practice ... the claims to participation in and control over the resources of the commonweal represented by each of the "four peoples" were very different, and were not represented accurately in a simple ranking system. For example, in government documents, small traders, shopkeepers, peddlers, and household handicraft workers--though nominally classified as "merchants" or "artisans"--were accorded the protective and paternalistic treatment generally reserved for "peasants."

Furthermore, says Mann, state policies on trade

> ... aimed not at improving the status of merchants, but at preserving the agrarian social order. Traders were integral parts of this order only insofar as they were able to shun the sphere called profit-seeking (li). Although petty traders and peddlers escaped the state's careful scrutiny of commercial profit, businessmen of means were squarely targeted by it.[107]

There were practical as well as ideological reasons why petty traders and artisans escaped close supervision. Clearly, China's vast size and large population alone would have precluded the possibility of bureaucratic supervision of every aspect of economic activity. For the most part, direct bureaucratic control only extended to the level of the county, below which the responsibility for overseeing the day-to-day matters of administration fell to the local gentry who, even if they had no official position, were incorporated ideologically into the ruling stratum by means of the examination system. Even urban merchants were to a large extent self-regulating through the guild system. But the smaller traders and artisans, like the millions of peasants engaged in agriculture, basically carried on their day-to-day activities with little direct supervision or control.

In his study of the salt monopoly, for example, Metzger points out that the salt yards had separate markets for peddlers where no formal taxes were levied, although salt that was to be shipped either short or long distances was heavily taxed: "The principle behind this division was that of segregating markets according to the ease with which they could be policed and thereby made to absorb legal salt."[108] Mann, writing about petty traders in general, says that

> ... not all merchants joined to form guild organizations, and not all attracted the attention of the government. Most peddlers, brokers, and vendors operated on a scale too small to warrant the costs of tracking down and taxing their assets. They not only slipped through the state's net entirely, but were even accorded some of the protection generally reserved for their counterparts in the agrarian sector, the peasants. Some of these petty traders (xiaofan) were employed by, or belonged to, larger business organizations or corporations, but most did not. Where individual entrepreneurs were confronted with taxation by the state, they often simply fled in search of tax-free areas where they could work unencumbered by tax collectors.[109]

For this and other reasons, small peddlers, especially itinerant ones, were often regarded with suspicion. One writer notes that because of their identification with the lowest stratum of Chinese society, small peddlers and itinerant artisans were vulnerable to heterodox ideas which had at various times helped to topple ruling dynasties:

> Generally, Confucian doctrine demanded a maximum of producing peasants and tolerated only a theoretical minimum of artisans and merchants. Although the latter two elements were still considered a part of legitimate society, the poorer members--small itinerant craftsmen, vendors, peddlers, etc. --tended to be lumped together in the Confucian mind with the followers of such despised occupations as begging, acting, musicianship, prostitution, or yamen-running. These latter occupations were outside of legitimate society; in fact, those engaging in them constituted something close to hereditary castes.[110]

And yet the image of the prosperous Chinese city would not be complete without a generous number of peddlers and traders, small food stalls, restaurants, teashops and wineshops, itinerant fixers of pots and grinders of blades. Chinese society was thoroughly commercialized by the Song dynasty, and the commercial vitality of the cities was remarked upon by contemporary observers such as Marco Polo. The importance of small commercial enterprises and services in the urban scene is vividly illustrated in a famous Song painting of the scene along the riverside in Kaifeng, which was the site of the northern Song capital before the Mongol invasion. Set at the height of the city's prosperity, it indicates that "the greatest portion of the population embraced the countless middle and small merchants, handicraftsmen, stall-keepers, peddlers, laborers, porters, servants, slaves, singers, story-tellers, prostitutes, tramps, vagabonds, beggars and the rest."[111]

To summarize, the position of small peddlers and artisans in traditional Chinese society bore many resemblances to more recent times. The larger merchants were generally to be trusted; their economic interests easily meshed with those of the state and its officials, they were easily incorporated into the ruling ideology of the scholar-gentry class, and their economic activities were necessary to the stability and well-being of the state. Small traders, on the other hand, were close to the lowest stratum of society. They were difficult to tax and presented a threat to social control. Their contribution to the vitality of the national economy was enormous, but their

contribution to the actual coffers of the state was minimal, while the costs of supervising them even nominally was beyond the capabilities of the state administrative network. For these reasons, they were simultaneously tolerated and mistrusted.

Early Marxist Views of Petty Trade

The traditional ambivalence toward commerce, and especially toward small merchants, peddlers and the like, meshed neatly with the dim view of this sector taken by the founding fathers of Marxism. Solinger has summed up Marx's view of commerce: "First, his perceptions of it were largely negative; second, he saw it as closely linked to capitalist society and so presumed it would vanish when capitalism did; and third, he believed that when the market was gone, it would be replaced by a planned organization of the economy, although he was vague as to just when and under what conditions this transition would happen."[112]

Engels had some pointed remarks about the historical role of merchants. He wrote in The Origin of the Family, Private Property, and the State that, along with the historical development of division of labour and production of goods specifically as commodities for exchange,

> ... a class appears for the first time which, without taking any part in production, captures the management of production as a whole and economically subjugates the producers to its rule; a class that makes itself the indispensable intermediary between sets of two producers each and exploits them both. ... A class of parasites arises, genuine social sycophants, who, as a reward for very insignificant real services, skim the cream off production at home and abroad, rapidly amass enormous wealth and corresponding social influence, and for this very reason are destined to reap ever

> new honours and gain increasing control over production during the period of civilisation, until they at last create a product of their own--periodic commercial crises.[113]

Petty commerce, however, was destined for a somewhat different fate. The Communist Manifesto says that with the increasing enrichment of the bourgeoisie, small traders and artisans would gradually become candidates for the proletariat:

> The lower strata of the middle class--the small tradespeople, shopkeepers, and retired tradesmen generally, the handicraftsmen and peasants--all these sink gradually into the proletariat, partly because their diminutive capital does not suffice for the scale on which Modern Industry is carried on, and is swamped in the competition with the large capitalists, partly because their specialised skill is rendered worthless by new methods of production. Thus the proletariat is recruited from all classes of the population.[114]

But as part of the petty bourgeoisie, the small merchants were dubious candidates as revolutionary allies for the workers. Falling somewhere between the "real" bourgeoisie and the proletariat, with their very existence threatened by the rise of the bourgeoisie, their interests could be expected to coincide with those of the workers. Yet, according to Marx and Engels,

> The lower middle class, the small manufacturer, the shopkeeper, the artisan, the peasant, all these fight against the bourgeoisie, to save from extinction their existence as fractions of the middle class. They are therefore not revolutionary, but conservative. Nay more, they are reactionary, for they try to roll back the wheel of history. If by chance they are revolutionary, they are so only in view of their impending transfer into the proletariat, they thus defend not their present, but their future interests, they desert their own standpoint to place themselves at that of the proletariat.[115]

For Lenin, who unlike Marx and Engels actually engineered a revolution, the petty bourgeoisie were even more untrustworthy.

Although his views on the subject will be discussed in more detail in Chapter 7, one particular statement is worth repeating here:

> They surround the proletariat on every side with a petty-bourgeois atmosphere, which permeates and corrupts the proletariat, and constantly causes among the proletariat relapses into petty-bourgeois spinelessness, disunity, individualism, and alternating moods of exaltation and dejection. ... It is a thousand times easier to vanquish the centralised big bourgeoisie than to "vanquish" the millions upon millions of petty proprietors; however, through their ordinary, everyday, imperceptible, elusive and demoralising activities, they produce the very results which the bourgeoisie need and which tend to restore the bourgeoisie.[116]

It was this view that dominated policies toward the individual economy in China up to the end of the cultural revolution decade, with an effect that has been difficult to eradicate.

Mao on the Individual Economy

The confluence of "Chinese" and "Marxist" attitudes toward petty commerce is reflected in one of the key historical documents of the Chinese revolution, Mao Zedong's 1926 analysis of the class structure of Chinese society.[117] Here Mao, like Lenin, was concerned with the revolutionary potential of the various classes. Mao split the groups which together comprise the individual economy into two classes. Small merchants and master handicraftsmen were grouped together with owner-peasants and the lower ranks of the intelligentsia as "petty bourgeois". Their reliability depended largely on whether they were making

money or not, but in general and especially in times of crisis Mao was confident that they would throw in their lot with the revolution.

The rest--small handicrafts producers and peddlers--were classified as "semi-proletariat", along with semi-owner peasants, poor peasants, and shop assistants. The small handicrafts producers were included, said Mao,

> ... because, though they own some simple means of production and moreover are self-employed, they too are often forced to sell part of their labour power and are somewhat similar to the poor peasants in economic status. They feel the constant pinch of poverty and dread of unemployment ...

Peddlers were in a similar situation:

> ... whether they carry their wares around on a pole or set up stalls along the street, [they] have tiny funds and very small earnings, and do not make enough to feed and clothe themselves. Their status is roughly the same as that of the poor peasants, and like the poor peasants they need a revolution to change the existing state of affairs.

Thus for Mao, while hawkers, peddlers, and small handicrafts producers were to be trusted unconditionally, small shopkeepers and master handicraftsmen were a less dependable group who, without supervision and/or appeasement, might be tempted to throw in their lot with the bourgeoisie. But on the whole, while the "leading force" of the revolution was the industrial proletariat, "our closest friends are the entire semi-proletariat and petty bourgeoisie."

At the same time, however, a basic mistrust of trade was reflected in many of the early policies of the P.R.C., including the <u>wufan</u> (five anti) campaign of the mid-1950s which hit at malpractices in capitalist industry and commerce. As well,

statements on the evils of parasitic "consumer cities" (as opposed to "producer cities") tended to reinforce the idea that urban commerce was on the whole an undesirable activity. Petty commerce was tolerated for the time being, but as we have seen, the general attitude toward it gradually deteriorated. For Mao as for Marx, Engels, and Lenin, among others, the ultimate aim of the socialist state, at least in theory, was to eliminate private commerce altogether and replace it with some sort of bureaucratic allocation system which might or might not retain market mechanisms. Early PRC policies toward commerce reflected these aims and served to underscore the ultimate fate of the individual economy.

Conclusion

To conclude, hostility and suspicion--or at best ambivalence--toward those employed in what is now called the individual economy have very deep roots in both traditional Chinese ideology and early Marxism. Both of these traditions glorified production and producers, although the first favoured agricultural producers while the latter lionized the industrial proletariat. At the same time each for its own reasons tolerated commerce while at the same time mistrusting it as a parasitic occupation. Small merchants, traders, and artisans in both traditions were seen in a particularly ambivalent light because of their intermediate position between the favored stratum of producers and the group whose values were deemed most threatening to the shapers of the ideology. These traditions converged to

produce a dubious view of small traders and artisans which persisted in the Chinese socialist state, producing the policies and treatment of the individual economy which we have documented in this and previous chapters.

This chapter began with a quotation about the negative impact of vacillations in policy, uneven implementation, and blatant discrimination against individual operators. The chapter went on to document the general effects of this phenomenon on the individual sector, and to explore the various factors behind it. The next chapter will focus on the experiences of one individual who over the years has come to exemplify the good and the bad in the individual economy, the benefits and the problems, and the thorny issues associated with the future development of the sector.

Notes

1. The meaning of the term "cadre" should be clarified. Gordon White calls them the "key representatives of institutionalized power ... The popular meaning of the term 'cadre' is ambiguous, resting on three different attributes: people who draw state salaries, people who do mental work, and people who occupy positions of formal authority ... Though cadres exist at all levels of society and in all institutions, there is an important distinction between state cadres and local cadres ..." He also distinguishes between leading cadres and ordinary or basic-level cadres; the latter are at the bottom of the hierarchy "and the interface between people with authority ... and the masses, those without authority." See Gordon White, "The Postrevolutionary Chinese State", in State and Society in Contemporary China ,pp. 42-43, eds. Victor Nee and David Mozingo (Ithaca: Cornell University Press, 1983).

2. Guowuyuan Bangongting Diaoyanshi (State Council General Office Survey Research Office), "Geti Jingji de Xianzhuang ji Wenti" (Current Situation and Problems of Individual Economy), in Geti Jingji Diaocha yu Yanjiu (Individual Economy Investigation and Research), ed. Guowuyuan Bangongting Diaoyanshi (Beijing: Jingji Kexue Chubanshe, 1986), pp. 4-5.

3. For more details on urban bureaucratic structures and controls, see Martin King Whyte and William L. Parish, Urban Life in Contemporary China (Chicago: University of Chicago Press, 1984), especially pp. 22-26.

4. See "Social Insurance for Individual Labourers Encouraged," Jiefang Ribao (Shanghai), 23 March 1983, translated in CEA, 26 May 1983, pp. 104-5.

5. Without delving into the psychology of entrepreneurship, it seems evident that self-employment in such a controlled society would be attractive to people who chafe at controls. The individual economy provides one of the only opportunities for people in China to earn a living without constantly being under the watchful eye of a paternalistic work unit whose cadres feel perfectly justified in interfering with the personal affairs of the workers under their jurisdiction.

6. Zhang Hao, Chen Jian, and Fang Kuan, "Beijing Shi Chengqu Qingnian Congshi Geti Jingying Qingkuang de Diaocha" (Survey of Circumstances of Young People Operating Individual Businesses in Beijing's Urban Districts), Jingji Yanjiu, no. 5 (1982), p. 56.

7. Chen Rufeng, "An Investigation on the Participation of Youth in Individual-Managed Businesses [Individual Economy] in Shanghai," Chinese Sociology and Anthropology 16 (Fall-Winter 1983-84), p. 183.

8. Chen Jian, Chen Gang, and Fei Suizi, "Congshi Geti Laodong de Qingnian Qiantu Guangming" (A Promising Future for Self-Employed Youth), in Woguo Xin Shiqi de Laodong Jiuye Wenti, (Employment Problems in Our Country in the New Period), ed. Zhuang Qidong (Jinan: Shandong Renmin Chubanshe, 1984), p. 140.

9. "Self-Employed Young People Discuss Future at Youth League Congress," Xinhua New Bulletin (Hong Kong), 24 December 1982, p. 10. According to a Canadian immigration officer in Hong Kong, self-employed applicants from the PRC had to produce special notarized documents in lieu of identity cards listing their place of work.

10. See He Jinquan, Jiang Shen, and Zhang Zhenkun, "Nanjing Shi Fazhan Chengzhen Geti Jingji de Qingkuang he Wenti" (Conditions and Problems in Developing the Urban Individual Economy in Nanjing), in Zhuang Qidong, ed., Woguo Xin Shiqi, p. 149.

11. "Social Insurance Proposed for Self-Employed Workers", Xinhua News Bulletin (Hong Kong), 21 May 1984, p. 34. For another proposal, see Zhang Zuxun, "Jianli Geti Laodongzhe Tuixiujin Zhidu" (Establish a Retirement Benefit System for Self-Employed Workers," Jingji Cankao (Economic Reference), 21 February 1983, p. 4.

12. Yu Ruhai and Zhang Yi, ed., Chengxiang Geti Gongshanghu Jingying Shouce (Operating Handbook for Urban and Rural Individual Industrial and Commercial Enterprises) (Guiyang: Guizhou Renmin Chubanshe, 1985), p. 15.

13. "Qingnian Geti Laodongzhe de Kunao" (The Worries of Self-Employed Youths), Zhongguo Qingnian Bao, 9 September 1980.

14. "Guanyu Shidang Fazhan Getihu de Jige Wenti" (Several Problems in the Appropriate Development of Individual Firms), Beijing Ribao, 30 August 1980.

15. Ibid.

16. "Guowuyuan Guanyu Chengzhen Feinongye Geti Jingji Ruogan Zhengcexing Guiding" (State Council Policy Regulations on the Urban Non-Agricultural Individual Economy), Zhonghua Renmin Gongheguo Guowuyuan Gongbao (PRC State Council Bulletin), no. 16 (25 September 1981), p. 495; hereafter cited as "Regulations."

17. "Problems of Individual Businesses Discussed," Zhongguo Caimao Bao, 25 December 1982, translated in CEA, 1 February 1983, p. 68.

18. "Guangrong Chuxi Qunyinghui" (Gloriously Attending a Meeting of Heroes), Wenhui Bao (Shanghai), 28 June 1982.

19. "Liaoning: Commentary on Supporting Self-Employed Workers," Liaoning Provincial Radio, 26 April 1984, translated in CEA, 25 May 1984, pp. 110-111.

20. For an argument against party membership for the self-employed, see "Gao Geti Shengchan de Ren Bu Neng Ru Dang" (People Who Do Individual Production Cannot Join the Party), Beijing Ribao, 5 September 1980; for the official justification see "Geti Shangyezhe Neng Ru Dang Ma?" (Can Individual Merchants Join the Party?), Beijing Ribao, February 16, 1983.

21. See Guangming Ribao, 26 March 1983.

22. Feng Lanrui, "Cong Yize Xiao Xiaoxi Xiangdao De--Tantan Geti Jingji" (Thoughts on One Small News Item--Talking About the Individual Economy), Guangming Ribao, 1 November 1980.

23. "Shenyang Heping Qu Chengli Geti Laodongzhe Dang Zhibu" (Shenyang's Heping District Establishes a Party Branch for Individual Workers), Renmin Ribao, 22 December 1982. Of the 2,700 individual workers in this particular district, thirty-eight were Party members.

24. "Yindao Getihu Zunji Shoufa" (Lead Individual Firms in Observing Discipline and Obeying Laws), Beijing Ribao, 18 August 1983.

25. Li Wenhui, "Bixu Dui Congshi Geti Jingji de Qingnian Jiaqiang Zhidao" (We Must Strengthen Guidance of Youths Engaging in Individual Economy), in Han De, Qingnian Jiuye, pp. 276-7.

26. Lan Chengdong and Zhang Zhongru, "Aspirations and Inclinations of this Year's Senior High School Graduates: A Survey of Three High Schools in Shanghai," Chinese Sociology and Anthropology 16 (Fall-Winter 1983-84), pp. 159-169.

27. Ibid., p. 168.

28. See Chen Jian, Chen Gang, and Fei Suizi, "Congshi Geti Laodong de Qingnian Qiantu Guangming" (A Promising Future for Self-Employed Youth), in Woguo Xin Shiqi de Laodong Jiuye Wenti, (Employment Problems in Our Country in the New Period), ed. Zhuang Qidong (Jinan: Shandong Renmin Chubanshe, 1984), pp. 136-147. For the 1981 survey, see Zhang Hao, Chen Jian, and Fang Kuan, "Beijing Shi Chengqu Qingnian Congshi Geti Jingying Qingkuang de Diaocha" (Survey of Circumstances of Young People Operating Individual Businesses in Beijing's Urban Districts), Jingji Yanjiu, no. 5 (1982), pp. 55-60 (translated in CEA, 13 July 1982, pp. 37-46), or the revised version in Han De, ed., Qingnian Jiuye de Tansuo yu Shijian (Exploration and Reality of Youth Employment) (Beijing: Zhongguo Shehui Kexue Chubanshe, 1983), pp. 257-269.

29. Chen Jian, et al., p. 144.

30. Ibid., pp. 144-5.

31. Li Wenhui, "Bixu Dui Congshi Geti Jingji de Qingnian Jiaqiang Zhidao" (We Must Strengthen Guidance of Youths Engaged in Individual Economy), in Qingnian Jiuye, ed. Han De, pp. 270-277.

32. See Tian Jie, Bo Huiru, and Zhao Piao, "Kaipi Geti Jingji de Jiuye Qudao" (Open Up the Individual Economy as a Channel for Employment), in ibid., pp. 241-256.

33. Ibid., p. 250.

34. Ibid.

35. Ibid., p. 251.

36. See Chen Rufeng, p. 181.

37. Ibid., p. 185.

38. Chen Jian et al., p. 144.

39. Cited in South China Morning Post (Hong Kong), 10 April 1986.

40. Shanghai Shi Gongshang Xingzheng Guanli Ju (Shanghai Municipal Administration of Industry and Commerce), "Shanghai Shi Geti Gongshangye Fazhan Zhuankuang de Diaocha" (An Investigation of the State of Development of Individual Industry and Commerce in Shanghai Municipality), in Geti Jingji Diaocha yu Yanjiu, p. 36.

41. He Jinquan, et al., "Nanjing Shi Fazhan Chengzhen Geti Jingji de Qingkuang he Wenti" (Conditions and Problems in Developing the Urban Individual Economy in Nanjing), in Zhuang Qidong, ed., Woguo Xin Shiqi, p. 151.

42. Cited in "Losing Out in the Love Business," China Daily, 17 April 1985.

43. Intriguingly, most of the reports on this problem have highlighted the difficulties of self-employed men finding wives, rather than the reverse. The same Jiefang Ribao report noted that while self-employed men were rejected by overly critical women, many self-employed women, especially the wealthier ones, were choosy in their choice of a mat; it gave the example of "a woman who saved more than 100,000 yuan by selling fruit [who] had been hunting for a spouse for several years among countless young men but still hasn't found a satisfactory one although she is nearly thirty." The sociological implications of this phenomenon are interesting, although unfortunately beyond the bounds of this study.

44. This is also true, to varying degrees, of other popular media including television, radio, films, and popular fiction. For this study it has not been possible to monitor the image of the self-employed presented in television programs. Even casual perusal of popular fiction magazines has turned up several stories with individual operators as protagonists. At least one film of the early 1980s, "Under the Bridge" featured a sympathetic portrayal of a romance between two young self-employed people in Shanghai, a bicycle repairman and a dressmaker. However the plot was concerned more with the problems for the woman of having an illegitimate child.

45. Zhang Hao, et al., p. 60.

46. Brantly Womack, "Editor's Introduction: Media and the Chinese Public," in Media and the Chinese Public: A Survey of the Beijing Media Audience, ed. Brantly Womack, Chinese Sociology and Anthropology 18 (Spring-Summer 1986), pp. 6-7, 11.

47. The most prominent example was the Hundred Flowers campaign and ensuing anti-rightist movement of the 1950s. One of the victims was investigative journalist Liu Binyan, who was expelled from the Communist party a second time at the beginning of 1987 for his alleged anti-Party and "bourgeois-liberal" ideas.

48. It is common for people with grievances, especially against basic-level cadres, to write to their local newspaper or even to Renmin Ribao to complain; many of these letters are printed in the papers, sometimes with advice on how to handle the problem. Many newpapers have special departments for reading the hundreds of readers' letters that arrive every day and passing them on to the appropriate authorities.

49. In a comment as true for the post-1978 period as for the earlier period he refers to, White says that "almost everywhere, investigative reporting is a check on bureaucrats and can be used by higher levels to keep lower functionaries in line." Lynn T. White Jr., "Local Newspapers and Community Change, 1949-69," in Moving a Mountain: Cultural Change in China, Godwin C. Chu and Francis L.K. Hsu, eds. (Honolulu: University Press of Hawaii, 1979), p. 81.

50. See "Beijing Shi Getihu Wang Ying Huifu Yingye" (Beijing Individual Operator Wang Ying is Back in Business), Renmin Ribao, 8 March 1983.

51. "'Shazi' he Ta De Guazi" ("Shazi" and his Melon Seeds), Guangming Ribao, 4 January 1983.

52. See Guangming Ribao, 28 March and 11 May 1983.

53. See "Bu Yao ba Women de Shehuizhuyi Gaode Bu Lun Bu Lei" (Let's Not Have a Socialism Which is Neither Fish nor Fowl), Beijing Ribao, 18 August 1980, and the ensuing correspondence on August 22 and 29 and September 1, 5, 8, 15, 19, 22, 26, and 29; also "'Beijing Ribao' Kaizhan Guanyu Chengzhen Geti Jingji Wenti de Taolun" (Beijing Daily Launches a Discussion on the Problem of Urban Individual Economy), Guangming Ribao, 20 September 1980, and Zhou Jinghua, "Discussions About Individual Economy," Beijing Review, no. 45 (10 November 1980), pp. 20-24.

54. Beijing Ribao, 22 August 1980.

55. Ibid., 1 September 1980.

56. Ibid.

57. Ibid., 5 September 1980.

58. Ibid., 8 September 1980.

59. Zhejiang Sheng Gongshang Xingzheng Guanli Ju, "Zhejiang Sheng Geti Gongshangye Qingkuang de Diaocha" (Investigation of the Situation of Individual Industry and Commerce in Zhejiang Province), in Geti Jingji Diaocha yu Yanjiu (Individual Economy Investigation and Research), ed. Guowuyuan Bangongting Diaoyanshi (Beijing: Jingji Kexue Chubanshe, 1986), pp. 69-70.

60. Guangming Ribao, 27 February 1983.

61. See "Changsha Fasheng Guoying Fandian Yingyeyuan Za Geti Yinshitan Wan Shijian" (Incident Occurs in Changsha Where Clerk of State-run Restaurant Smashes Bowls at Individual Food Stall), Beijing Ribao, 17 August 1980; and "Xinhua Commentator Discusses Individual Economy's Role," translated in FBIS, 18 August 1980, pp. L13-14.

62. "Trade Journal on Decrease in Individual Undertakings", Beijing Xinhua Radio, 27 March 1981, translated in FBIS, 1 April 1981, pp. K19-21.

63. "Regulations", p. 495.

64. "Geti Jingying de 'Baishui Yangtou' ... " (Individually-operated 'Baishui Yangtou' ...) Guangming Ribao, 10 December 1982.

65. 1 jin = 0.5 kg.

66. See "The Basic Reason for the Relatively Slow Development of Individual Economy in Beijing Municipality is Because the "Left" Ideology Has Not Been Completely Cleaned Up", Zhongguo Caimao Bao, 25 December 1982, translated in CEA, 1 February 1983, pp. 68-70.

67. "Provisions Supplementary to 'Some Policy Regulations of the State Council Concerning Urban Non-agricultural Individual Economy'", in Selected Laws and Regulations of the People's Republic of China Concerning Industrial and Commercial Administration (Chinese title: Zhonghua Renmin Gongheguo Gongshang Xingzheng Guanli Fagui Xuanbian) (Hong Kong: China Industrial and Commercial Management Press, 1984), Chinese original pp. 111-114, English translation pp. 311-316.

68. See "Wuhan Wubai Duo Geti Shangyehu bei Wuli Koujiao Yingye Zhizhao" (Operating Licenses of More Than 500 Individual Commercial Enterprises in Wuhan Groundlessly Seized), Guangming Ribao, 30 December 1983; "Wuhan Shi Lingdao Xiang Mengshou Sunshi he Weiqu de Getihu Peili Daoqian" (Wuhan Leaders Offer Apologies to Individual Firms Which Have Sustained Losses and Inconvenience), Guangming Ribao, 4 January 1984; and "Wuhan Shiwei, Shi Zhengfu Shuo Hua Suan Shu; Bei Kou de Getihu Yingye Zhizhao Quanbu Guihuan" (Wuhan Municipal [Party] Committee and Municipal Government Keep Their Word; All Operating Licenses Confiscated from Individual Firms are Restored), Guangming Ribao, 9 January 1984.

69. See "Haerbin Fuchi Geti Jingying Hu" (Harbin Supports Individually-Operated Firms," Zhongguo Qingnian Bao, 21 August 1980; and "Qingnian Geti Laodongzhe de Kunao" (The Worries of Self-Employed Youths), Zhongguo Qingnian Bao, 9 September 1980.

70. See "Ben Shi Yiyou Siqian Suo Hu Geti Gongshanghu Chaoguo 1957 Nian Shuliang" (This City Already Has More Than Four Thousand Individual Industrial and Commercial Firms, Surpassing 1957 Numbers), Beijing Ribao, 22 June 1981.

71. "Guanyu Shidang Fazhan Getihu de Jige Wenti" (Several Problems Regarding the Appropriate Development of Individual Firms), Beijing Ribao, 30 August 1980.

72. See, for example, "Shi Shougong Ju Dui Getihu Fangkuang Pifa Zhengce" (Municipal Handicrafts Bureau Loosens Wholesale Regulations for Individual Firms), Wen Hui Bao (Shanghai), 29 March 1983; "Shi Baihuo Gongsi Tongchou Anpai Chengli Lige Zhuangong Jiti he Geti Shangye de Fuwubu" (Municipal General Goods Company Makes Unified Arrangements for Setting Up Six Service Stations Specifically to Supply Collective and Individual Commercial Firms), Beijing Ribao, 18 February 1983, and the company's advertisement in the same newspaper, 21 February 1983.

73. "Problems of Individual Businesses in Guangzhou Described," Yangcheng Wanbao, 8 June 1982, translated in CEA, 29 September 1982, pp. 95-96.

74. "We Must Adopt a Positive Attitude in Promoting Proper Development of Individual Economy in Urban and Rural Areas", Zhonguo Caimao Bao, 5 October 1982, translated in CEA, 7 December 1982, pp. 70-73.

75. Liang Chuanyun, "Actively Support the Healthy Development of Individual Industrialists and Businessmen in Cities and Towns", Jingji Guanli, No. 8, 1982; translated in CEA, October 21, 1982, pp. 16-23.

76. Lan Shiwei, "Develop Individual Industrial and Commercial Enterprises, Build up Small Cities and Towns in Mountain Areas", Ningxia Ribao, 19 April 1984, translated in CEA, 29 June 1984, pp. 29-31.

77. Brodsgaard, in an analysis of Western European trends in China scholarship, has pointed out the dangers of relying on Chinese self-characterizations of their own political conflicts. European scholars, he argues, have tended to adopt uncritically the "two-line" model at the expense of organizational and institutional factors such as group interests, which Chinese sources tend to downplay. See Kjeld Erik Brodsgaard, "China Through the Looking Glass: The Effects of Chinese Self-Characterizations on West European China Scholarship," Issues and Studies 22 (July 1986): 129-153.

78. See William A. Joseph, The Critique of Ultra-Leftism in China, 1958-1981 (Stanford: Stanford University Press, 1984), pp. 6-11 for the complex distinctions between Leftism, "Leftism," and ultra-Leftism. The Mao quote is on p. 9; ironically, since 1978 Mao himself has been accused of the same error.

79. As Dorothy J. Solinger (in Chinese Business Under Socialism, p. 75) says of those who espouse what she calls the "radical tendency": "We know of their views just through attacks on them ... One can do no more than guess at the prevalence within society of those with these beliefs, or at the extent of their power at the local levels." This statement may have to be modified in the light of events surrounding the fall of Party Secretary-General Hu Yaobang in January 1987, when the views of the "leftists" or "radicals" were heard more openly. They also came to light in the 1983 campaign against spiritual pollution.

80. "Guanyu Shidang Fazhan Getihu de Jige Wenti" (On Several Problems with the Appropriate Development of Individual Firms), Beijing Ribao, August 30, 1980.

81. Tian Jie, et al., "Kaipi Geti Jingji de Jiuye Qudao," pp. 251-2.

82. Hu Peizhao, "Dui Geti Jingji Yao Zhidao, Bangzhu, He Jiandu" (We Must Guide, Help, and Control the Individual Economy), Renmin Ribao, 9 September 1983.

83. "Trade Journal on Decrease ..."

84. Quoted in CEA, 15 September 1981, p. 18.

85. Solinger, Chinese Business Under Socialism, p. 160.

86. "Xinhua Commentator Discusses Individual Economy's Role," translated in FBIS, 18 August 1980, p. L13.

87. See "Bu Yao Jiya Jiti, Geti Shangye" (Don't Squeeze Out Collective and Individual Commerce), Beijing Ribao, 24 April 1981.

88. Alec Nove, The Economics of Feasible Socialism (London: George Allen & Unwin, 1983), p. 111.

89. "Changsha ... ", Beijing Ribao, 17 August 1980; Sun Ping, "Individual Economy Under Socialism," Beijing Review, no. 35 (1984), p. 29.

90. For more details on the aims and methods of this protracted campaign, see Maria Chan Morgan, "Controlling the Bureaucracy in Post-Mao China," Asian Survey 21 (December 1981), especially pp. 1230-1231, and John P. Burns, "Reforming China's Bureaucracy, 1979-82," Asian Survey 23 (June 1983), pp.714-718.

91. See Chapter 4 above.

92. Maria Chan Morgan, "Controlling the Bureaucracy", p. 1234

93. Harry Harding, Organizing China: The Problem of Bureaucracy 1949-1976 (Stanford: Stanford University Press, 1981), pp. 350-351.

94. Ibid.

95. David Zweig, "National Elites, Rural Bureaucrats, and Peasants: Limits on Commune Reform in China" in The Limits of Reform in China, ed. Ronald A. Morse (Boulder: Westview Press, 1983), pp. 73.

96. Ibid., p. 74.

97. Ibid., p. 78.

98. Thomas A. Metzger, "The State and Commerce in Imperial China," Asian and African Studies, no. 6 (1970), p. 28.

99. Wellington K.K. Chan, Merchants, Mandarins, and Modern Enterprise in Late Ch'ing China (Cambridge: East Asian Research Center, Harvard University, 1977), pp. 15, 17-18.

100. See Jacques Gernet, A History of Chinese Civilization (Cambridge: Cambridge University Press, 1982), pp. 144-148.

101. See Chan, especially pp. 15-25, on the historical ambivalence toward commerce, and on gaps between theory and practice in the official treatment of merchants.

102. Metzger, "The State and Commerce in Imperial China," p. 26. Perhaps more pertinent is the fact that, as Metzger (p. 31) points out, "the positive evaluation of commerce was often the popular one, since, as was observed already in Chou [Zhou] and Han times, many persons disliked the hardships of farming and wanted to switch to what they believed was the easier and more profitable life of trade and handicrafts in the cities. Thus the drift to to the cities was a freqent source of outrage for Chinese officials in various periods."

103. Thomas A. Metzger, "The Organization Capabilities of the Ch'ing State in the Field of Commerce: The Liang-huai Salt Monopoly, 1740-1840," in Economic Organization in Chinese Society, ed. W.E. Willmott (Stanford: Stanford University Press, 1972), p. 44.

104. See Metzger, "Organizational Capabilities," for a full description of how this system worked.

105. Susan Mann, Local Merchants and the Chinese Bureaucracy, 1750-1950, (Stanford: Stanford University Press, 1987), pp. 19-20.

106. Wolfram Eberhard, "Social Mobility and Migration of South Chinese Families," in Settlement and Social Change in Asia: Collected Papers, Vol. 1, (Hong Kong: Hong Kong University Press, 1967), p. 141.

107. Mann, ibid., pp. 20-21

108. Metzger, "Organization Capabilities", p. 14.

109. Mann, pp. 24-25.

110. John W. Dardess, "The Transformations of Messianic Revolt and the Founding of the Ming Dynasty," Journal of Asian Studies (May 1970), p. 554.

111. Jiang Qingxiang, Xiao Guoliang, "Glimpses of the Urban Economy in Bianjing, Capital of the Northern Song Dynasty", Social Sciences in China 2 (December 1981), pp. 158-9.

112. Dorothy J. Solinger, "Marxism and the Market in Socialist China: The Reforms of 1979-1980 in Context," in State and Society in Contemporary China, eds. Victor Nee and David Mozingo (Ithaca: Cornell University Press, 1983), p. 195.

113. Frederick Engels, "The Origin of the Family, Private Property and the State", in Karl Marx and Frederick Engels: Selected Works, (London: Lawrence and Wishart, 1968), p. 583.

114. Karl Marx and Frederick Engels, "Manifesto of the Communist Party", in Ibid., p. 42.

115. Marx and Engels, "Manifesto", p. 44.

116. V.I. Lenin, "'Left-wing' Communism: An Infantile Disorder", in The Lenin Anthology, ed. Robert C. Tucker (New York: W. W. Norton, 1975), pp. 569-570.

117. See Mao Zedong, Selected Works, Vol. 1 (Beijing: Foreign Languages Press, 1965) pp. 13-21.

CHAPTER VI

SHAZI: A CASE STUDY

Introduction

Most of the issues discussed in the previous chapter are aptly illustrated in all their complexity by the story of one well-publicized individual enterprise, "Shazi Guazi" (Shazi's melon seeds). Moreover, the implications of this case give signposts to the future development of the individual sector in China. This chapter relates the tale of Shazi, one of China's most famous and successful individual operators, first as it was recounted in the national mass-circulation press in December-January 1983, and then as later revelations added new layers to the story.

It should first of all be noted that this is not meant to be the tale of a "typical" individual operator. Shazi has after all been the object of national media attention, and he has become much wealthier than most individual operators could ever hope to be. He has been singled out, not exactly as a model for emulation, but as an example of the best and the worst in the individual economy. As told retrospectively and selectively by the Chinese press, his experiences first as an ordinary hawker and then, in the new climate after 1978, as a successful entrepreneur, reflect at every step the vicissitudes in official treatment of the individual economy, and the ways in which the self-employed themselves have responded. Moreover, the manner in

which the Shazi story has been told in the mass-circulation press and in more specialized publications clearly reflects the way in which such examples are used to guide public opinion, revealing only what the readership "needs to know" (or the authorities wish to reveal) at any particular time.

It has not been a simple matter to piece together the tale. The Shazi story first hit the national press in several articles published in the national newspaper Guangming Ribao in December 1982-January 1983.[1] At the time, as has been noted above, the central theme of articles about the individual economy in the mass-circulation press was to publicize the social and economic benefits of restoring the individual sector, criticizing what a cartoon in Guangming Ribao called the "new footbinding"--the systematic harrassment of individual businesses by local officials and agencies. The papers were full of similar articles about the "arbitrary" repression of honest and long-suffering private entrepreneurs.

In these reports, Shazi was glorified as a positive example of a self-employed entrepreneur whose ingenuity and hard work brought him financial success while at the same time providing a whole range of benefits to society as a whole. He was portrayed in a heroic light as one of many individual operators being harrassed for no legitimate reason by local market management cadres. Guangming Ribao credited the local press in Shazi's home city of Wuhu (Anhui province) for being the first to publicize Shazi's story back in August of 1981 when his new brand of melon seeds was first introduced on the market. As he became more

famous and more successful, according to this account, he attracted more and more harrassment from local cadres, and finally, in a pattern which has already become familiar, his plight "came to the attention" of higher-level officials and the national press, prompting the very positive Guangming Ribao coverage at the end of 1982 and beginning of 1983.

Less than a year later, stories began to surface which painted him in a very different light. Shazi had been caught at tax evasion. In October and November 1983, in the midst of the nationwide crackdown on tax evasion and other business-related crimes, papers all over the country were reporting not only on Shazi's considerable unpaid taxes, but all sorts of business irregularities and outright crimes committed by him and his eldest son, who was also his business partner.

An article in the domestic-circulation magazine Jingjixue Dongtai (Trends in Economics), published in the spring of 1982--that is, some eight months before the Guangming Ribao articles--filled in many of the gaps.[2] It revealed that as early as the winter of 1982, "Shazi Guazi" had been regarded by local economists and administrative cadres as a problematic "conspicuous business" (maojian hu) and had been the focus of a special meeting organized by the Wuhu Economics Institute. Although the report of this meeting, containing details of Shazi's operations, was published in a domestic-circulation academic journal, it was not a secret document and it did indicate that the case was being widely discussed. Certainly this information would have been available to the reporters of Guangming Ribao. Later reports

reflecting on the implications of the Shazi case also indicate fairly detailed knowledge of the operation. Why they were not reported at the time will become apparent in the discussion below.

The details of Shazi's crimes and subsequent repentance and salvation were reported in local newspapers all the way from Harbin to Guangzhou, as well as in the national newspaper Guangming Ribao which seems to have taken a special interest in the case. Shazi's own response and the decisions of the local authorities in Anhui provide interesting material not only on the current vitality of the individual economy, but also on its likely future.

Shazi: Life on the Margin

"Shazi" is the nickname of Nian Guangjiu, a vendor of roasted melon seeds (guazi) in the Yangtze River port of Wuhu. His nickname means "fool" or "idiot", given to him for reasons explained below. He was forty-five years old when he first sprang into national view in articles published in Guangming Ribao in December 1982 and January 1983. A native of Bengbu, in northern Anhui province, his family moved to Wuhu while he was still a child. His father was a fruit peddler, and in 1947, at the age of nine, Nian Guangjiu began his working life as an itinerant peddler hawking fruit in the streets. His father taught him the intricacies of buying, storing, and selling fruit, and after his his death in 1956, Shazi carried on the family business, selling apples, tangerines, bananas, and pears from a

stall in the city's market district. It was here that he acquired his nickname, given to him by other fruit peddlers as a way of ridiculing him for giving out free samples and readily giving refunds to unsatisfied customers.

Shazi apparently managed to escape the collectivization campaigns of the "high tide" and Great Leap Forward in the mid-and late 1950s. The newspaper report gives few details of his experiences at that time. His business seems to have prospered through the early 1960s, but his independent ways got him into serious trouble when individual businesses began to be controlled more stringently after the brief relaxation of policies in 1961-62. In 1963, with a shortage of apples on the market in Wuhu, he arranged privately to bring in a load from the countryside, and set up a stall to sell them--across the street from a state-run retail fruit outlet. As Guangming Ribao described the scene:

> That evening, in a fit of enthusiasm, Shazi hung up an electric lamp, and had a radio playing music, causing his fruit stall to buzz with activity. There was a steady stream of customers in front of Shazi's stall, while the state-run fruit outlet was cold and deserted. This was going too far. Shazi was labelled with the fearful charges of "undermining the foundations of socialism" and carrying on a "rapacious campaign for capitalism", and was thrown into jail.

He was sentenced to a year in prison, but released--for reasons unstated--after only five months. After his release, Shazi abandoned the fruit business and became an itinerant guazi peddler, roaming the streets selling roasted melon seeds from a wicker basket. During the cultural revolution period, when legal urban private enterprise was all but eliminated, Shazi was one of

those operating "in the shadows." The spirit of the times encouraged public action and even violence against those suspected--or, like Shazi, previously convicted--of harbouring "capitalist" tendencies. Guangming Ribao reported:

> At that time, there was a certain amount of risk involved in being a small peddler. Tough gangs of self-appointed militia would for no reason suddenly appear before Shazi and "sweep away" his "capitalist" basket, stuffing the guazi into their own bags. But what could he do? Shazi had an elderly mother and three small children depending on him for their existence, so he dodged around using "guerrilla warfare" tactics to avoid the gangs. Fortunately the Wuhu plain is large, it wasn't hard to sell three to five jin a day, enough to keep a family warm and fed.[3]

The growing leniency toward individual operators after 1978 encouraged private peddlers like Shazi to come out into the open. Quick to detect the change in atmosphere, he bought a second-hand wooden cart and set up a guazi stand at the busiest intersection in Wuhu. Almost three hundred other guazi peddlers in the city had the same idea, but according to Guangming Ribao, Shazi's operation was the most successful--in fact, business had never been so good.

It is not clear whether his operation was licensed or not--at that time the procedures for administration of the individual economy were still extremely loose. Without explicit official sanction, the self-employed were still very vulnerable to harassment by local authorities, despite widespread criticism of such practices in the press. This situation had unfortunate results in Shazi's case. In the spring of 1980, "the conspicuous (maojian) 'Shazi' became the first target of a projected

rectification campaign by the municipal department of industry and commerce." As Guangming Ribao described it, dramatically if somewhat sketchily:

> A meticulously planned "search and confiscation" campaign was set up, and the personnel involved made their own arrangements. Happily, however, times changed, people's heads cooled off, and the concerned departments opposed such an untimely "revolutionary campaign", sparing Shazi this calamity. However, this ill wind caused a mighty storm in his household. His wife, who was a factory worker, heard there was going to be another search and confiscation, and was scared to death. She thought, we now have 14,000 yuan in the family (including inventory); if these assets were gone, how would they survive? The outcome of this mental struggle was that she asked Shazi for a divorce.
>
> So this couple who had lived together for almost twenty years, finally parted. Shazi divided up the 14,000 yuan among his mother and three sons, wanting nothing for himself. All that was left to him was an old two-room flat, a set of roasting tools, and his aged mother. A false alarm, a search and confiscation which never materialized, left Shazi, with his mother and the two sons who decided to stay with their father, sunk in the misery of a broken family.

This account obviously raises more questions than it answers. For instance, how was the family able to amass 14,000 yuan in assets? On another level, the passage brings out the very real domestic tensions created by the ambiguous status of the individual economy. The stress and insecurity caused by political upheaval and fluctuations in policy obviously created, and continue to create, very real personal dilemmas for people like Shazi and his family, however melodramatically they are described in the Chinese press.

The domestic crisis stimulated Shazi's entrepreneurial energies. In the spring of 1981, according to the glowing report in Guangming Ribao, he hired a domestic helper to look after his household, and left Wuhu for three months--the longest he had

ever been out of the city. He travelled around south-central China studying the melon seed business. Wherever he went, he studied the different regional varieties of guazi and compared the different production techniques. Being illiterate, he would simply go to the market, buy a bag of seeds, and commit to memory their flavour and appearance.

On the basis of this research and some experimentation of his own, he created a new product, "Shazi Guazi", which was supposed to incorporate the best features of the various types of melon seeds he had sampled. They were launched on the Wuhu market in August 1981, and were an immediate hit. Apart from the superior quality and unique flavour, which is reputed to be a subtle balance of salty and sweet, spicy and bland, they were selling for 1.76 yuan per jin, as opposed to the going market price of 2.40. The brand name, too, is a stroke of genius. In Chinese vernacular, if a shazi is a fool, a sha gua or stupid melon, is about as idiotic as they come.[4]

Shazi's marketing breakthrough was well timed. Only weeks before in early July, the State Council had finally come out with national regulations which put the official stamp of legitimacy on the urban individual economy. The publication of these regulations was accompanied by a press campaign explaining the policy and praising the contributions of individual operators to the national economy. The outcome of Shazi's enterprising move was thus very different from his experience of 1963, when all-too-successful competition with a state-run fruit store landed him in prison. This time, representatives of the

municipal Party committee and the municipal government (including the vice-mayor in charge of trade and finance) came to see him personally to express their support, and the Wuhu newspaper assigned a reporter to cover the story, which appeared on September 5: "Masses of people carrying that day's newspaper and seeking after fame, made a special trip to buy "Shazi Guazi", with onlookers and customers creating a traffic jam around Shazi's stall." Shazi took advantage of the opportunity to give out free samples. As a result of the publicity and his own promotional activities, his daily sales quickly increased from five or six hundred jin to three thousand.

His success set off a price war among the private guazi vendors in Wuhu, and the competition also stimulated reforms among the state-run distributors. Guangming Ribao reported that in an effort to recapture their market position the two local state-run companies brought in outside experts to create two new varieties of roasted melon seeds, marketing them at a price even lower than Shazi's. They also instituted reforms in management, and set up contract-responsibility systems for processing and marketing. They broadened their sources of supply and expanded wholesale operations, lowering the minimum wholesale purchase from 100 jin to 30 jin to facilitate purchases by small vendors.[5]

The competition apparently did no harm to Shazi's business, however. On the contrary, in 1982 he was able to subscribe three thousand yuan toward a new public warehouse, and the next year he contributed five thousand yuan toward flood-relief projects. One of his sons who joined the business at the end of 1982, donated

one thousand yuan to the Wuhu Children's Palace. The Nian family was portrayed in the press as a model of the complementarity of public benefit and private gain.

When asked why he dropped his prices, Shazi reportedly replied,

> At that time raw melon seeds only cost 140 yuan for fifty kilos, but roasted seeds were going for 240 yuan for fifty kilos, the profit per jin was at least 0.8 yuan. I thought, this really isn't necessary. Thanks to the benevolence of the Party, we can finally do business, but we shouldn't go for excessive profits, we should go for small profits and big turnover (boli duoxiao). This works to the benefit of the peasants and also the customers. So I decided to cut the price." At this point he added: "Sure, I knew that doing this would bring pressure, that the trade association (tonghang hui) would complain, and that some people would think I'm crazy; people have told me "you really are a shazi!" But I thought, why shouldn't we small merchants and peddlers play a leading role, we individual businesses also have to devote ourselves to the four modernizations ..."

The report also pointed out that although Shazi had undoubtedly made a lot of money, he never did so at the expense of public interest. His monthly tax payments had risen from 2000 yuan in September 1980 to over 9000 yuan for November 1981, and he was paying 1600 yuan a month in management fees. The surplus was kept in the bank. Said Shazi, "I can't use all this money, after I die I will still be giving it to the country, not to my own descendents." He also reportedly took pride in his skill and was eager to share it--he had trained twelve technicians from other localities the art of making Shazi Guazi, in order to spread the reputation of Wuhu melon seeds.

As the Guangming Ribao article pointed out:

> People can easily see that this individual businessman Nian Guangjiu's guazi business in the first place supplements the state-run economy and stimulates the market; secondly it contributes to the reform of operation and management systems in state-run commerce; third, it increases the income of the state ...; fourth, it has created a famous new brand of merchandise; fifth, it has helped solved the employment problem for some unemployed young people. For these good things to come about, all we have to do is abandon our prejudices and give it our encouragement, enthusiastic support, and correct guidance.

Despite altruistic motives and positive results, however, Shazi's troubles were far from over, and it was this that brought him national newspaper coverage in January 1983. In a concluding section subtitled "Shazi's tribulations", Guangming Ribao reported that "in the course of covering this story, we discovered that only a few people have a correct understanding of Shazi." Not long after the first report appeared in the Wuhu daily paper, a dazibao (big-character poster) "dripping with satire and sarcasm" was posted in the Wuhu market district by a local cadre. In the form of doggerel, it attacked the Wuhu newspaper for making trouble by giving so much publicity to Shazi.[6] Other forms of harassment were more concrete: he had difficulty obtaining an operating permit, he was denied a permit to erect a shelter for his stall, and he was charged "arbitrary" fines by local cadres, some of whom were also accused of acts of vandalism against Shazi's stall. Proclaimed Guangming Ribao:"... At the root of all this are pernicious 'leftist' influences." The story ended on an ominous note:

> ... in the past Shazi suffered because he had no business (meiyou shengyi er kunao), now business is good and he still suffers. When will Shazi stop suffering?
>
> People are waiting ...

So according to this major national newspaper in January 1983, Shazi was an honest entrepreneur whose time had finally come. But after years of being the victim of successive twists and turns in policies and attitudes toward private trade, he was now, in this new era of tolerance, still being victimized by officials who were slow to shake off the "pernicious influences" of "leftism".

From Positive to Negative Example

It is important to note the timing of this report. In late 1982 and early 1983, the general attitude toward the individual economy on the part of the central government and its portrayal in the mass-circulation press was extremely positive. As noted in Chapter 3 above, around this time there was a whole series of reforms designed to free up the operating environment of the individual economy, culminating in the promulgation of the supplementary State Council regulations in April 1983. At the same time, harrassment by local officials was severely criticized in the press. The positive coverage on Shazi was part of this trend.

Less than a year later Shazi and his family were again in the news, and by this time the climate was far less benign. By the late spring of 1983, the generally lenient attitude toward the individual economy had already begun to change. In May the State Council issued a circular on strengthening market control. The press began to run a spate of articles demanding more stringent "management" of malpractices by individual firms. In

the fall came the nationwide crackdown on tax evasion and other illegal practices. The State Council issued a directive on October 8 requiring individual businesses to pay their taxes according to the existing laws.

Around the same time, Renmin Ribao and local newspapers throughout the country reported that Shanghai tax authorities had found Nian Guangjiu and his son Nian Jinbao guilty of tax evasion. (Nian Jinbao, it was later reported, had joined his father's business in December 1982, using part of his parents' divorce settlement as capital. He had allegedly multiplied his original investment ten times over in less than six months.)[7] Renmin Ribao reported on October 12 that the tax authorities in Shanghai had given the the proprietors of Shazi Guazi until November 11 to hand over forty-three thousand yuan in unpaid taxes on sales of melon seeds in that city alone. Nian Jinbao had set up a sales outlet in Shanghai's Southern District the previous February. In May the district tax authorities discovered that his sales reports did not tally with his tax returns, and presented him with a bill for 5,600 yuan to cover the difference between actual and reported sales.

This discovery prompted closer investigation in Shanghai and Wuhu, with the cooperation of local tax officials; it was found that the Nian family had systematically given false reports of their business volume, destroying the actual receipts and instead turning in illegally printed receipts from "Shazi Guazi Co. Ltd." with the requisite tax department certificate forged on them. According to the Renmin Ribao report, it was finally

calculated that Nian Guangjiu had neglected to report more than 374,000 yuan's worth of Shazi Guazi sold in Shanghai between February and August 1983. In addition to the original sum of 5,600 yuan, they owed a further 37,400 yuan in taxes. They were ordered to pay the total in full before November 11, or face serious punishment.[8]

On November 13 the Shanghai paper Xinmin Wanbao reported that Shazi had indeed "rushed over to our city from Wuhu" on the 11th to pay his taxes in full. In addition to the 43,000 yuan paid in Shanghai, the son had also been made to pay the Wuhu tax department a large sum in back taxes, of which 20,000 yuan was taxes owed to Shanghai. The total collected from "Shazi Guazi" by Shanghai tax authorities alone was about 63,000 yuan.[9]

More spectacular revelations were to come. Barely a week after he finished paying up his taxes, Nian Jinbao was arrested for a robbery committed four months earlier. It was reported in November that on July 19 he had gone to the Wuhu train station, along with ten of his associates including Shazi Guazi "factory manager" Wu Guangming and "accountant" Tao Nenghe, to pick up a load of raw melon seeds coming in from Xinjiang. Along with the melon seeds, they lifted 400 jin of sugar, 340 jin of corn, 200 toothbrushes, and an unspecified number of bicycle spare-parts and carried off the lot in the company truck. The three were arrested on November 17 by the railway police.[10]

This seamier side of the Shazi story should have come as no surprise. Although earlier reports in the mass-circulation press had been so positive, they had chosen not to reveal certain

circumstances that were common knowledge at the time among local officials and professional economists in Wuhu. As early as April 1982, a report on "Shazi Guazi" authored by the Wuhu Economics Association appeared in the domestic-circulation magazine Jingjixue Dongtai (Trends in Economics). It revealed that by the early spring of 1982 (about half a year after he launched the improved "Shazi Guazi" on the Wuhu market with so much fanfare in the local press, and a good nine months before Guangming Ribao took up the story), Nian Guangjiu was already regarded by local officials as a "conspicuous business" (maojian hu), conspicuous enough to warrant a meeting of local economic officials and theoreticians to discuss the implications of his case.[11] This meeting was not mentioned by Guangming Ribao, although reporters from this national-level party organ would surely have been aware of it. But it is clear that the kind of coverage given Shazi by Guangming Ribao was consistent with the conclusions of the local economists, at least as those conclusions were reported in Jingjixue Dongtai.

The economists reportedly all acknowledged that Shazi's business already exceeded the scale that could legitimately be considered individual business. Its contributions to the economy were reiterated: Shazi was selling a high-quality, reasonably-priced product which was popular with consumers; he had forced down the market price for roasted melon seeds, not only in the private sector but in the public distribution network as well; he was training apprentices and providing work not only for his own employees but also indirectly for at least fifty private

distributors who were retailing his products; he was contributing substantially to state tax revenues; and finally the competition had forced the public-sector enterprises to improve their products, operate more efficiently, and become more responsive to consumer demand.

At the same time, however, Shazi was also creating "problems." The number of workers and apprentices employed by the business already exceeded the legal limit, and among them were rural residents and moonlighting employees from other enterprises. By purchasing raw guazi directly from the farmers at a price substantially higher than that offered by the state, he was undercutting the state distributors' supplies and interfering with commodity planning.[12] Even more serious, a large proportion of his profits were illegal and unreported, coming from underpayment of taxes and also from selling short-weighted packets of melon seeds.[13]

The officials and academics attending this meeting pointed out that despite its positive contributions to the national economy, the individual economy was still, "when all is said and done", a form of petty commodity economy, the participants of which were both workers and private owners. Thus it displayed both positive and negative aspects; that latter included "the pursuit of profit over all else, blind development, even speculative and profiteering behaviour." "Conspicuous businesses" in the individual economy--those such as Shazi's "whose scale of activity greatly exceeds ordinary individual businesses"--were both better and worse than most. But for the present,

"individual labour still cannot be replaced by socialized labour", and the individual economy was still to be seen as a "long-standing, stable element in our economy." That being the case, the participants concluded that it would be a mistake to "give up eating for fear of choking" (yin ye fei shi). The individual economy was still in the initial stages of restoration and development and needed continued support. However, they counseled stricter control and management, and also the use of economic levers by state enterprises and agencies to control the runaway growth of individual firms.

On the question of limits, it was agreed that the most important variable, and the one most easily controlled, was the number of employees:

> The individual economy is characterized by individual labour, and individual possession of a small amount of means of production and products. Current policy dictates that an individual enterprise can take on one or two helpers. If this limit is exceeded and there are too many hired workers, so that this person is no longer the principal [source of] labour power, or if with commodities the value created does not come primarily from the labour of this person, then the character of individual labour is lost, and the nature of individual economy changes.[14]

Limiting the number of employees would also place limits on the scale of operations and profits. In the particular case of Shazi, it was clear that he had already exceeded the stipulated limits (according to this report he had fourteen workers and apprentices working for him at the time), and the participants at the meeting "felt that the number of workers he employed should be controlled according to policy regulations, in order to put it back within the normal bounds of individual economy."[15]

The participants also discussed what they felt was a very real danger of such businesses turning into capitalist enterprises. The existence of large amounts of capital in private hands (it was estimated that Shazi had about 100,000 yuan--far more than the competing state-run enterprises) created the possibility of individual firms being able to dominate the state-controlled economy. They were also worried about the dangerous tendency toward the commoditization of labour, especially in this time of high unemployment. A major concern was that, even within the legal boundaries, the employer-employee and master-apprentice relationships in the individual economy were already forms of exploitation: "Precisely because this exploitative relation already exists, if hiring and exploitation exceed a set amount, [the individual economy's] nature will easily change..."[16] The solution to these quandaries was obvious: "We must strengthen management and supervision."

This was to be done not only through policy and legislation, but especially through the use of economic levers such as taxation, subsidies, and credit. The point was that the state and the state-run economy should use their dominant position and all the methods at their disposal to guide and channel the growth of the individual economy while maintaining it in its current subordinate position.

Shazi's successful competition with the state sector, however, clearly demonstrated that this could only be done if the state sector reformed its own operations. Various recommendations were made on how this could be done. For example, if state

purchases of raw guazi were made in the villages, rather than expecting the peasants to travel long distances to sell their products, they would be more likely to sell to the state than to the private itinerant traders who supplied private distributors such as Shazi.

Another lesson this meeting drew from Shazi's experience was that by reducing the number of steps between producer and retailer, the end profits earned by state-sector distributors could be increased and their competetive edge regained. The participants also saw in Shazi's success an argument for greater autonomy for state-sector enterprises so that they could operate as "relatively independent commodity producers" rather than as public welfare agencies where everyone "ate from the same big pot." Without effective production responsibility systems and greater autonomy in employment practices, they could not hope to compete with private enterprises such as Shazi's. The last word was left to Shazi himself: "My apprentices study for three months and then become masters, if they had been assigned by the state, they would have to study for at least three years."[17]

This report published in April 1982 makes it clear that, despite all the good things Shazi's business was doing for the local economy, even at that early date many of the meeting's participants had strong reservations about the wisdom of allowing him to continue to expand. Local officials were well aware of the many illegal or at least questionable business practices he was indulging in, and were watching him closely. But the current emphasis was to encourage and promote the individual economy, and

central policy at that time clearly dictated that it would be inappropriate to publicize any misgivings too widely. Despite the reservations, Shazi was not only allowed to stay in business, he was given wide publicity as a positive example. Ironically, this very publicity fueled the runaway growth of his business.

Further Developments

"Shazi Guazi" continued to expand, apparently with very little interference from the authorities. An article published in the law journal Faxue (Jurisprudence) in March 1984, two years after the Jingjixue Dongtai report, gives some idea of the rapidity with which the business grew.[18] It states that by the second half of 1982, only a few months after the Wuhu conference, Shazi already had three manufacturing locations in Wuhu where fifty to sixty workers produced over 6,000 jin of roasted melon seeds per day. He also had sixteen sales outlets in other towns, including Hefei and Bengbu in northern Anhui, and Nanjing down the river.

In January 1983, around the time Guangming Ribao took up his story, Shazi centralized his production facilities in a suburban production brigade near Wuhu, where he rented a site of over 900 square metres and equipped it with nine roasting ovens. He was producing over 10,000 jin of roasted melon seeds per day, and his monthly profits were close to 20,000 yuan. He had a telephone, a warehouse, an office, and a guardhouse at the gate, as well as a large administrative staff. By January 1983, "Shazi Guazi" was officially registered as a trademark. The article

does not state how many employees he had at that time, although it does say that he took on temporary workers during the peak season. The workers' average wage was about 100 yuan a month, with salaries ranging from 40 to 50 yuan for the lowest-paid workers to 200 for the highest-paid. His profits, after taxes and normal expenses, were estimated at 20,000 yuan per month. By late 1983, Shazi's personal income was estimated to be as high as 6,000 yuan a month.[19]

In the midst of this rapid expansion, however, Shazi neglected his paperwork. For a long time he had no formal accounting procedures and no bank account. He misrepresented the scale of his operations to the government, and, as we have seen, he seriously underreported his profits to tax authorities. It was also found that he was mixing lower grades of raw melon seeds in with the higher-quality ones before seasoning and roasting, thus cutting his production costs. In this way he could save on raw materials without affecting the flavour of the product, which was its real selling-point.

By early 1993 Shazi's unpaid taxes amounted to over 70,000 yuan. It was at this point that the authorities stepped in and forced him to pay his taxes and clean up his various illegal activities. But he was allowed to stay in business, a decision which the law journal concluded was "undoubtedly correct." As Renmin Ribao explained in a short "comment" accompanying the report on Shazi's tax problems, there was still nothing wrong with some people getting rich first, as long as they did it legally: "However, no matter who [they are], no matter what

business they are in, they must obey the law and act in ways that benefit the country and the people ... Only chaos must be eliminated, only the harmful must be stopped; this is a prerequisite for stimulating the economy."[20]

Active lobbying by Shazi himself may have had something to do with the decision not to revoke his license. On 1 April 1984 Guangming Ribao carried on its front page a letter to Shazi from the Anhui provincial Party Secretary, Huang Huang, along with excerpts of a letter Shazi had written to him a few days earlier.[21] In his letter Shazi had outlined an ambitious production plan for 1984 which called for processing and marketing ten million jin of raw melon seeds worth a total of sixteen million yuan. This, he said, would ensure the livelihood of five thousand families of melon growers. It would also pay 2.02 million yuan to the state in various kinds of taxes. In addition it would also provide employment and incomes for workers in the distribution network; he gave the example of the collectively-run service counter in the railway station at Hefei, the provincial capital, which the previous year sold 130,000 jin of Shazi Guazi and boosted its staff of young school graduates from thirty-four to sixty-two at salaries comparable to those paid workers in state-run enterprises.

Shazi told the Party Secretary that he was largely motivated by love for his native province: "Although I have suffered many setbacks, I truly believe the Party is great and

the Party's policies are correct. ... I am always thinking: I grew up eating Anhui grain and drinking Anhui water, now how can I put a little effort into building up Anhui?"

He claimed that in 1983 all his profits had either gone to charities such as flood relief projects and an old people's home, or into the bank. "This money is the people's. If I died all of it would go to the state." He complained that when he submitted his most recent "battle plan" to the local authorities, he received no reply, which was why he was now writing to the provincial Secretary. He concluded, "If I can't honour [my commitments], I'll willingly go to jail. I hope I can obtain your support."

Secretary Huang replied that he had the greatest concern for anything having to do with Shazi, "one of Anhui's influential individual workers," and wished him new success. The rest of the letter was a stern reminder not to forget about socialism:

> Our country holds fast to the socialist system, this is a basic principle. With the socialist system as the prerequisite, the appropriate development of various economic forms including individual economy plays an active role in enlivening the economy, enriching the market, bringing convenience to the masses, and creating employment. This is a long-term policy of our party. I believe that as long as your operations are legitimate, your legal rights and interests will all be protected by the state. No department or unit can encroach upon you. I have already told the Wuhu Municipal Committee about the issues you raised in your letter, and asked [the leading comrades] to get in touch with the relevant municipal departments. They will take an interest and support you.
>
> You, Comrade have a lot of shortcomings. Some of these shortcomings are prominent ones. We communists allow people to make mistakes, but to allow and to endorse are two completely different things. I hope you will resolutely study the relevant Party measures and policies, and firmly abide by the laws and regulations; you mustn't fail to live up to the solicitude of the party and government toward you,

> if you make mistakes you should correct them, you must adhere to the correct road of healthy progress dictated by the party. This principle is applicable to you and all other comrades. If some comrades cannot deal impartially with you, for the most part this is a problem of understanding, and cannot be changed. You shouldn't worry too much about it.

A month later, the same newspaper carried a report of a decision by the standing committee of the Wuhu municipal Party committee which was an almost unqualified endorsement of Shazi's activities.[22] It reported that the city's Party leadership had praised Shazi's past successes and contributions, and decided that

> We must pay attention to and support Nian Guangjiu in expanding production, and increasing his sales. For example if in the course of his operations he enounters difficulties, every relevant department should do their utmost to help him solve them. At the same time we must help him in a timely way to overcome his deficiencies and mistakes, and lead him to become a consciously law-abiding individual operator.

The committee also exhibited a remarkably liberal attitude toward Shazi's expansion plans:

> When discussing "Shazi" Guazi's style of operation, the comrades at the meeting pointed out that they had to fully respect Nian Guangjiu's own aspirations. It was all right for him to continue to run the business himself, and it was also all right for him to establish joint operations with various other units or individual firms; it was all right for him to do business in Wuhu, and it was also all right for him to set up branch operations in other places. No matter what form of business he adopted, as long as it was legitimate it should be given support.

As if to underline Shazi's return to the good graces of Party, government, and the press, Guangming Ribao the following October reported that Shazi's youngest son, Nian Qiang, had donated twenty thousand yuan to a middle school attached to Anhui

Normal University to help the school set up a computer course for its students, promising to give them another twenty-one thousand yuan at the end of the year.[23]

There is every reason to believe that Nian Guanjiu and the "Shazi Guazi" empire have continued to prosper. A January 1985 magazine article reported that Shazi had formed a share-capital company with two other units; a district labour service company in Wuhu and a company in a nearby town.[24] His eldest son Jinbao, however, had a thriving business of his own. As "an individual entrepreneur of the new generation," the article said, he and his father were "pursuing different goals." His "Jinbao Roasted Products Store" (Jinbao Shaohuo Dian) had over one hundred regular employees, plus fifty to sixty seasonal workers. Salaries for the regular employees ranged from 1-200 yuan per month for regular workers to about 500 for the managerial staff. The seasonal workers made about twenty yuan per day. In addition, all workers received incentive bonuses based on productivity; the managers also got yearly bonuses of at least 1,000 yuan, depending on that year's profits. Most of the workers were in their early twenties. Nian Jinbao had also set up branch plants in Hefei, Changsha, Inner Mongolia, and Xinjiang. By October 1984 he had paid 1.3 million yuan in taxes. Although the article was reticent on the subject of his personal income, it did point out that by late 1984 he had spent more than 70,000 yuan sponsoring sports events, and was building an 80,000 yuan house for himself.

In an interview, the magazine asked Jinbao about a rumour that when Zhao Ziyang passed through Wuhu earlier in the year, he'd asked to meet him and his father; he answered that it was true, but they were away on business at the time and couldn't meet the Premier. Asked what he would have said if he had met him, Jinbao answered "without the least hesitation": "Go on giving us individual firms the green light!"

Jinbao also revealed that he had had enquiries from abroad about going into business together, and was planning an overseas trip himself, "maybe to Japan or advanced countries like that, to have a look." As for his future business plans, "next year he's going to open a company called "Nian Feng Shiye Kaifa Gongsi" (Nian's Abundant Industrial Development Company), dealing mainly in food products; his aim is to make his company into a big trust (tuolasi) like America's Coca Cola company."

The article said nothing about his earlier legal troubles.

Implications of the Shazi Story

What are we to conclude from the Shazi story? One obvious conclusion is that the whole story in all its details will probably never be known. What evidence we have is limited to interpretations given by the Chinese press and as we have seen, these reports tend to support specific policy positions. But careful contextualization and distinction between different kinds of coverage can yield a plausible interpretation.

Contrary to the impression given in the original Guangming Ribao article, it would appear that since at least early 1982, Shazi was being watched carefully by local authorities in Wuhu. Even when his company grew too large to legitimately be considered an individual firm, he was allowed to continue to expand his operations, and was even used as a model for propaganda purposes. Most of his infringements were overlooked. Only when it was found that he was grossly underpaying his taxes and moreover that his son was guilty of theft of state property, was the leash pulled in. Even then, Shazi himself was only required to pay the taxes he owed to the government. He was not fined, although he could have been heavily penalized. Moreover, this occurred in the midst of a crackdown on tax evasion, by which time Shazi, as well-known as he was, could hardly have been ignored without risk of a major scandal.

It seems clear that at least until the last half of 1983, the central government was keeping its options open in regards to limits to the individual economy. Successful firms were being monitored, but local authorities were obviously being told to keep their hands off them, at least for the time being.

This meant that the local authorities were caught in a bind. Central policy favoured the expansion of the individual economy, and at least until mid-1983, any measures that implied repression of individual businesses were suppressed, or if they did occur, were roundly criticized in the mass-circulation press. Most of these criticisms were focused on local-level cadres

responsible for the day-to-day tasks of market management. They were accused of systematic harrassment of individual firms, and in many cases these accusations appear to have been justified.

But Shazi was breaking the law. Local authorities saw his activities as a threat to market order, and were clearly concerned that he would be a bad example to other individual entrepreneurs. Yet they were unable to act, forced by central policy to sit back and watch as Shazi contravened one regulation after another. In mid-1983 regulations were tightened up at the centre, and central authorities began to send the message that from now on the authorities would no longer be so tolerant in their treatment of individual firms who broke the law. Hu Yaobang's "who is respectable?" speech in August 1983 is an important marker in this change of attitude. It would seem that around this time, local authorities were given the green light to crack down on individual entrepreneurs, and they did so with a vengeance.

Thus if the initial accounts of Shazi's story in the mass-circulation press omitted the less savoury details of his operations, it is because to include them would have undercut the obvious purpose of the coverage: to castigate the obstructionist behaviour of local cadres at a time when such behaviour was seen as an obstacle to the re-establishment of the individual economy. Later these details came to light in a different context, during the campaign to "clean up" the individual economy, in which

Shazi's case was used to publicize the introduction of tighter controls, especially over tax evaders, and to warn individual entrepreneurs that their excesses would no longer be tolerated.

Shazi was in a sense of a victim of his own success. He exemplified the best and the worst of the individual economy in its current renaissance. When central policy was to encourage the growth of the individual economy, he was held up as an outstanding example. When central policy was to more clearly demarcate the limits to individual entrepreneurial activities and crack down on those who transgressed them, Shazi was a prime candidate. Not only was it right that he should be forced back into line, it was neccessary in view of all the positive publicity he had been given. Because of his very notoriety, he had become a potential embarrassment whose propaganda value could be salvaged only by making him an example of the efficiency of the bureaucracy in ferreting out transgressors and bringing them into line. As well known as he was, not to punish him would have sent the wrong kind of signals to other entrepreneurs, at a time when they were being told that they all must obey the laws. Shazi benefited greatly from being a "conspicuous business" but eventually he was made to pay the price.

In the end, however, the events of 1983 turned out to be only a temporary setback. Despite the fact that he had been guilty of massive tax evasion, and had transcended the limits on hired labour, once the policy loosened up again, not only was he no longer criticized, he was apparently given a free hand in expanding his operations. Moreover, his son, after being

arrested for robbery, was also free to pursue his own private business activities, which showed signs of becoming even bigger than his father's. As always subject to policy vacillations, by the end of 1984 they both exemplified the renewed emphasis on "prosperity" which was again used to promote the expansion of the individual economy. The only residue from the crackdown of 1983, it seems, was a strict warning to obey the law.

Shazi's story also demonstrates the tension, or at the very least lack of coordination, between central government policy and local-level implementation in the early stages of re-establishing the individual economy. As we have seen, the national coverage of Shazi's sucess came out long after the details of his activities were known and discussed by local economists and administrators. Yet the national newspaper Guangming Ribao chose to ignore the fact that by that time "Shazi Guazi" was far more than a simple street-corner stall; instead they praised Shazi's tenacity and acumen while criticizing local-level cadres for their "arbitrary" and obstructionist behaviour toward him. One of these cadres had expressed his or her opinion surreptitiously by posting the critical wall poster, but presumably that was the limit to their possible resistance. Without higher-level support, their hands were tied.

It would seem clear, then, that the central government policies promoting the individual economy were received with dismay by at least some local cadres. The "arbitrary" treatment criticized in the press (in Shazi's case and many others as well), whatever else it might have been, was very likely a

manifestation of their frustration. They were forced to deal with the practical administrative problems caused by the rapid growth of the individual economy, at the same time as these problems were being glossed over by central policy-makers and the national press. This being the case, the subsequent crackdown, which was supported from the centre, represented a tacit admission by central authorities that the local cadres were justified in much of their strict handling of individual firms and required more support from the centre in their attempts to bring some order to the sector.

In large part, this tension between centre and locality can be seen as a difference of perspective between central planners and local administrators. Planners take the long, broad view. They see the individual economy in terms of employment creation, commodity circulation, and comprehensive development strategies. If central authorities placed Shazi on a long leash, it was partly as an experiment to see what the economic impact of his activities would be. The Jurisprudence article stressed the "spread effects" of Shazi's business which were alluded to in other reports; apart from the improvements made in state-run enterprises in response to the competition, it also stimulated the rural economy in a region of China which is notorious for its rural poverty. Shazi paid a high price to rural producers for his raw materials; the state-run enterprises were forced to raise their price as well. Shazi created new products to suit consumer tastes, and the state-run distributors did likewise. This put more than ten new brands of guazi on the local market, and

stimulated overall sales considerably; the quantity of guazi processed in Wuhu in 1982 was ten times the amount produced in 1981. The impact on the local rural economy of this sudden increase in demand for raw melon seeds was probably considerable. 25

From the central authorities' point of view, this was exactly the sort of effect the growth of the individual economy was supposed to stimulate. It is interesting that curbs were placed on businesses such as Shazi's, not for growing too large, but for eluding control, and perhaps more significant, for not sharing their growing profits with the state. As the "comment" accompanying the Renmin Ribao report on Shazi's tax problems pointed out:

> "Shazi" is not stupid (sha), in fact he is very cunning. In a half year he managed to avoid paying taxes on guazi sold in Shanghai to the tune of 43,000 yuan, he ate the State's portion, his appetite is so big! This kind of law-breaking merchant must be dealt with according to the law. If our comrades turn a blind eye to this kind of thing, then we ourselves have really become the stupid shazi.[26]

It would be interesting to know how he would have been treated if he hadn't been evading taxes. As it was, a point was reached where the practical concerns of local administrative cadres could no longer be ignored, and at this point, the treatment of profitable individual firms became far less lenient. The problem then became, how far to go in controlling individual firms without stifling their expansion altogether? All the evidence indicates that, at least by the end of 1984, the correct formula had yet to be found.

One further lesson may be drawn from the Shazi story. This is the enormous vitality of the individual economy in China's economic life. As slanted and sentimentalized as the press account of Shazi's life story may have been, it is essentially plausible given the vicissitudes in policy toward the individual economy since 1949 as outlined in previous chapters. What is remarkable is Shazi's response. It is true that even during the darkest days of the private economy during the Cultural Revolution, private vendors continued to operate and even to demand that their livelihood be protected. There is something heroic about this resilience. The determination to "make a buck" even in the worst of circumstances is a great resource in a modernizing economy, one which the current leadership in its current mood is trying very hard to harness. However, their efforts to curb its less admirable and more rapacious tendencies are understandable in any context but particularly so in a system that still sees itself as a socialist one based on public ownership. Shazi's fate illustrates the dilemmas this contradiction creates.

Of course there are also good structural explanations for the vitality of the individual economy as a sector. But the point being made here is that when economists and officials talk about limiting the individual economy, they are talking about curbing the entrepreneurial efforts of real individuals with a long history of bucking the system, people who have risked a lot in the past and are clearly not afraid to fight back.

Shazi's letter to the provincial Party secretary seems totally in keeping with his past behaviour. The mixed response of the Secretary and the more enthusiastic statement by the municipal committee pointed to a new direction, not only for Shazi but for all ambitious individual entrepreneurs. After the crackdowns of 1983, the new message was, "admit your mistakes, accept our leadership, stay within the boundaries of the laws and regulations (even when we have not clearly defined them), and you are free to grow as big as you want."

Notes

1. See Guangming Ribao, 12 December 1982, and especially "Shazi He Ta de Guazi" (Shazi and His Melon Seeds), 4 January 1983. The biographical information in this section is taken almost exclusively from the latter article, which ran to almost half a page.

2. See Wuhu Shi Jingji Xuehui (Wuhu Economics Institute), "Guanyu 'Shazi Guazi' de Taolun--Sheji Geti Jingji Maojian Hu de Yixie Wenti" (A Discussion of 'Shazi Guazi'--Touching on Several Problems of Conspicuous Businesses in the Individual Economy), Jingjixue Dongtai (Trends in Economics), no. 4 (1982).

3. 1 jin = 0.5 kg.

4. The author can personally attest to both the quality and popularity of the product. In February 1984 I sampled "Shazi Guazi" on a visit to Shanghai. Friends in Shanghai knew exactly where to get them (a stall on Nanjing Road West, a major downtown thoroughfare), and had tried and liked them. When I brought a bag to Beijing, they were immediately appropriated by an acquaintance who was a native of Jiangsu, claiming that they were better than any guazi found in the north. Several months later, telling this story in Hong Kong, I was told that on a cruise down the Yangtze River, Chinese passengers rushed off the boat at Wuhu--to buy "Shazi Guazi". As of early 1985 they were on sale in shops as far south as Guilin, in small plastic bags bearing the legend "Wuhu specialty" and listing the attributes of the contents: "high quality at the right price, fragrant, crisp and tasty, special roasting methods, carefully-chosen superior ingredients."

5. See Guangming Ribao, 20 December 1982.

6. The verse runs as follows: "Shazi guazi daizi bao / Daizi bao dao Shazi xiao / Si xiang yuanze quan bu yao / Ru ci baozhi shi hunao." A very rough translation is: Stupid melon seeds, an idiotic report /the idiotic report gives Shazi a laugh / Four words we could do without / this is the way newspapers make mischief.

7. See "'Shazi Guazi' Zai Shanghai Toushui Luoshui 43,000 Yuan Shuikuan Xianqi Jiaoqing" ("Shazi Guazi" Pays Back Within Time Limit Taxes of 43,000 Yuan Evaded in Shanghai), Haerbin Ribao, 14 October 1983.

8. See "'Shazi Guazi Zai Shanghai Xiaoshou Touluoshui Si Wan San Qian Yuan" (Shazi Guazi Evades Taxes in Shanghai Worth 43,000 Yuan), Renmin Ribao, 12 October 1983; and ibid.; the latter report was based on the Renmin Ribao article and a report in Xinmin Wanbao (Shanghai).

9. "'Shazi Guazi' Jingyingren Nian Jia Fuzi Yifa Bujiao Zai Hu Suo Tuo Shuikuan" (Proprietors of "Shazi Guazi" Nian Father and Son Have Already Paid Up in Accordance With the Law Taxes Evaded in Shanghai), Xinmin Wanbao, 13 November 1983.

10. "'Shazi Guazi Zhangzi Zuo Zei" (Eldest Son of "Shazi Guazi" Commits Robbery), Haerbin Ribao, 23 November 1983. This story was picked up from a November 19 report in Shanghai's Jiefang Ribao (Liberation Daily).

11. Wuhu Shi Jingji Xuehui, "Guanyu 'Shazi Guazi' de Taolun," p. 18.

12. Shazi was buying raw guazi at 1.42 yuan per jin. The procurement price (for goods included in the state production plan) was 1.05 to 1.10 yuan, and the negotiated price (for extra-plan goods) was 1.35 to 1.40 yuan. Ibid., p. 19.

13. Ibid. The economics are complex. To the tax authorities, he was reporting monthly earnings (yingye e) of 15,000 yuan which was taxed at 7 percent for a monthly tax bill of 1,050 yuan. But it was found that he was actually selling 17,000 jin of guazi per month, about double what he was reporting, which gave him monthly earnings of 30,000 yuan. Thus he was saving one thousand a month in taxes. Officials also found that when he was selling guazi by the jin he was selling at the true weight, but 40 percent of his sales were small packets that were supposed to weigh 0.5 liang and in fact only weighed, on average, 0.435 liang (1 liang = 0.1 jin). Thus these small packets were fetching him 2.29 yuan per jin as opposed to the 2 yuan he was supposed to be making. Based on raw material costs, other production costs, and legal tax rate, his rate of profit should have been 0.13 yuan per jin, giving him, on sales of 17,000 jin per month, a tidy income of over 2,000 yuan. But taking into account his ill-gotten gains from underpaying taxes and short-weighting, it was calculated that his monthly after-tax income was probably somewhere around 6,000 yuan. Since he claimed that something less than one quarter of his income went in meals, year-end bonuses, and other benefits for his apprentices and employees, this would leave him with a monthly net income of over 4,500 yuan.

14. Ibid., p. 19.

15. Ibid., p. 20.

16. Ibid., p. 19.

17. Ibid.

18. Wang Zhuansheng, "Cong 'Shazi Guazi' Kan Geti Jingji Zhong de Falu Wenti" (Legal Questions in the Individual Economy As Seen From 'Shazi Guazi'), Faxue, no. 3 (March 1984), pp. 6-11.

19. See Shao Honghua and Lu Zhaoqi, "Guanyu Geti Jingji Shuishou Zhengce de Youguan Wenti (On Questions Related to Taxation of Individual Economy), Jingjixue Dongtai, no. 11 (1983), p. 34.

20. Chen Xiang, "Wei Hai Bi Zhi" (Only the Harmful Must be Stopped), Renmin Ribao, 12 October 1983.

21. "Anhui Shengwei Shuji Huang Huang Fuxin Gei "Shazi" Guazi Jingyingzhe: Xiwang Nian Guangjiu Yanzhe Zhenque Guidao Jiankang Qianjin" (Anhui Provincial Committee Secretary Huang Huang Sends a Letter to "Shazi Guazi" Operator: Hoping that Nian Guangjiu Sticks to the Correct Path for Healthy Advancement), Guangming Ribao 1 April 1984, p. 1.

22. See "Wuhu Shi Wei Changweihui Taolun Renwei: Yao Fuchi Yindao Getihu Nian Guangjiu Jixu Jingying Fazhan ''Shazi' Guazi" (Wuhu Municipal Committee Standing Committee Discussion Believes: We Must Support and Lead Individual Firm Nian Guangjiu to Continue to Operate and Develop "Shazi" Guazi"), Guangming Ribao, 8 May 1984.

23. "Wuhu Shazi Guazi Jingyingzhe Nian Qiang Xiang Anhui Shida Fu Zhong Juankuan Liang Wan" (Wuhu Shazi Guazi Operator Nian Qiang Donates 20,000 to Anhui Normal University Attached Middle School), Guangming Ribao, 17 October 1984, p. 2.

24. Shen Quanmei, Wang Zhanxiong, "'Xiao Shazi' yu 'Lao Shazi'", Qingnian Yidai (The Young Generation), no. 1 (1985), p. 9. According to rumours in Beijing in February 1985, he had formed a joint venture with a collective-run enterprise in Xinjiang, and had been praised in the newspaper for contributing a large sum to the fund for repairing the Great Wall.

25. Wang Zhuansheng, ibid., p. 7.

26. Chen Xiang, "Wei Hai Bi Zhi", cited above.

CHAPTER VII

THE INDIVIDUAL ECONOMY IN CHINESE ECONOMIC THEORY

Introduction

Along with the effort to rehabilitate the individual economy between 1978 and 1984, Chinese economists and theoreticians were faced with a corresponding theoretical project: to provide a basis in economic theory, grounded in a theoretical understanding of the laws of development of socialist society, which sanctions and explains the continued presence of a petty commodity sector within the socialist economy.

The search for the "economic laws of socialism" has taken on new meaning in China since the late 1970s.[1] The stock-taking which followed the death of Mao and the end of the cultural revolution era demanded theoretical analysis of the successes and failures of the previous 35 years as well as a blueprint for the future of a society which aims to be a modernized socialist power. The formula which has become orthodoxy in the years of Deng Xiaoping's ascendancy is: "a modernized socialism with Chinese features." Discovering what this will be in practice, and how to actualize it, has preoccupied Chinese economic theorists for the past several years. It is within this framework that recent theoretical discussion of the individual economy has taken place.

In general, arguments for the existence and further development of the individual sector rely on three kinds of justification: a) the idea that socialism is not and cannot be a "pure" economic formation (and was never envisioned to be such by the forefathers of socialism), but rather is a transitional stage in which many economic forms left over from the "old society" continue to coexist in new and dynamic interrelationships; b) the requirements of "objective economic law"--specifically, the Marxian principle that the relations of production must conform to the level of development of the productive forces, in order to move those forces to a higher stage; and c) the actual conditions and problems in the Chinese economy at the current stage--or the real constraints upon economic development.

Underlying these arguments is the search for a theoretical conception of the individual economy itself which distinguishes it from capitalism (or, for that matter, any specific economic formation) and allows its presence to be seen as, not merely a temporary and ultimately undesirable expediency, but an economic form with a legitimate position and necessary role within a developing--and perhaps even a developed--socialist economy.

This theoretical project has brought forth conclusions which at times look less like theory than transparent rationalizations for policy. They are, however, grounded in a pragmatic effort to assess what socialism, as a transitional economic form, can be, and specifically what is possible and desirable in China at the present time.

This chapter begins with a discussion of the model of socialism as a transitional formation, the concept of social and economic development which that model entails, its implications in terms of economic structure (meaning the structure of ownership), and the place of individual economy within that structure. It goes on to look at discussions among Chinese economists about the "nature of the individual economy" itself and its place in China's overall economic structure, attempting to reconstruct a "majority" view on this issue as well as point out areas of controversy. The third section examines the major theoretical obstacle to full acceptance of the individual economy--the issue of "spontaneous capitalist tendencies"--placing the issue in its historical context and outlining its current resolution. Throughout all of this, answers are being sought to two questions: First, do these arguments work on their own terms, that is, in terms of what Chinese theoreticians and policy-makers say they hope to achieve? Second, what do they imply for a theory of petty commodity production within a "socialist" economic formation, however that economic formation is eventually realized? These questions will form the basis for the concluding section.

Undeveloped Socialism and Socialist Development

Post-1978 discussions on the individual economy, then, have taken place within a particular theoretical context, that is, amidst arguments about the socialist transition, what it consists of, how it is to be accomplished, and how far China has

progressed down the road. This whole issue went through a radical re-defininition of terms after the events of 1976 precipitated a shift to a new development strategy. If the theoretical literature on the individual economy is to be at all intelligible, it must be viewed against the background of these larger debates--especially those concerning the nature of the socialist transition and the mechanisms which power and guide that transition.

It must also be kept in mind that in the economic literature of post-1949 China, dominated by Marxist categories and terms of reference, "development" necessarily has a complex meaning. On the one hand it refers to the development (both quantitative and qualitative) of the forces of production--which could also be termed "modernization". On the other, it refers to the development of social relations of production--which could also be termed "transformation". The interaction between these two determines the nature of a third kind of development: the development of society from capitalism to socialism (and eventually to communism). In any discussion of development-related issues in China all these aspects are present, if only implicitly. Even if the stress is on the former, material development, its connection with societal development is (or should be) always implicit; considerations of development always imply the question, "development towards what end"?

This section begins with a discussion of the currently-accepted model of socialism as a transitional formation, and the concept of social and economic "development" which that model

implies. It then discusses the "objective economic law" which underlies the model and is most often used to justify restoration of the individual economy--the "law" of correspondence between the forces and relations of production, which says that the relations of production must correspond to the level of development of the productive forces, in order to move the forces to a higher level. This naturally implies a preoccupation with the question of ownership and the structure of ownership in the nation's economy. The section ends with a discussion of the implications of this notion of development for a theory of the continued existence of the individual sector (or small-scale private ownership) within a socialist economy.

Antecedents: The Controversy over the Socialist Transition

It is frequently noted that the problem of building socialism or effecting the transition to socialism in economically-underdeveloped countries was not foreseen by Marx--in fact that Marx had very little to say about socialism itself, even in developed economies.[2] The key statement which sums up most of the essential elements of Marx's thinking on social and economic development, comes from the 1859 "Preface" to "A Contribution to the Critique of Political Economy." It reads:

> In the social production of their life, men enter into definite relations that are indispensable and independent of their will; relations of production which correspond to a definite stage of development of their material productive forces. The sum total of these relations of production constitutes the economic structure of society, the real foundation, on which rises a legal and political superstructure, and to which correspond definite forms of social consciousness. The mode of production of material life conditions the social, political, and intellectual life

> process in general. It is not the consciousness of men that determines their being, but, on the contrary , their social being that determines their consciousness. At a certain stage of their development, the material productive forces of society come in conflict with the existing relations of production, or--what is but a legal expression for the same thing--with the property relations within which they had been at work hitherto. From forms of development of the productive forces, these relations turn into their fetters. Then begins an epoch of social revolution ... No social order ever perishes before all the productive forces for which there is room in it have developed; and new, higher relations of production never appear before the material conditions of their existence have matured in the womb of the old society itself.[3]

The proletarian revolution was supposed to take place in countries where capitalism had already developed the forces of production to a high level, where socialized large-scale production would be the norm, and where petty production would already have been substantially transcended. That is, in the "normal" scheme of things, the task of developing the forces of production would have taken place during the period of capitalism, so that after the proletarian revolution, it would be a fairly simple matter to institute a purely socialist system; as one Chinese study puts it: "individual economy would not exist, nor would there be the necessity to develop individual economy, there would be established a unitary socialist public-ownership economy in which there would be no individual economy."[4]

This was clearly not the case in Russia after the Bolshevik revolution, nor was it true in China after 1949. The new Communist regime was immediately faced (as the Bolsheviks had been in 1917) with the problem of economic reconstruction and development in a crisis situation. It was in this context too

that it had to confront the practical problems of building socialism in an economy based largely on small-scale private production.

It was forced to do so without a clear theory of socialist transition, and indeed only one model where it had actually been tried. Thus theory was from the beginning concerned with practical problems. Mao, for example, began his analysis of the classes in Chinese society with the twin questions, "Who are our enemies? Who are our friends?"[5] The answers to these questions formed the basis for policies and strategies designed to effect the socialist transition. Essentially, Mao was asking questions about the relation of people to the forces of production--his main concern was with property relationships, and his general strategy for transition was to transform these as quickly as possible, which would in turn liberate the productive forces from the "fetters" of existing class relations. This is a preoccupation which continued, and which in fact became identified as a "Maoist" approach to the building of socialism. Justification could be found in the Marxist classics for such an approach, although Mao was also credited with reinterpreting these classics to suit the Chinese situation.[6]

This approach was, however, tempered at various periods by political conflicts and by the economic realities imposed by China's extreme poverty. After Mao's death the "Maoist" approach to development was finally superseded by another approach which emphasized the other side of the equation: the development of the forces of production. The emphasis on the "four modernizations"

and other principles of the Deng era sanctioned the pursuit of development by any means available, even if they appeared to involve "regression" to "less advanced" property relationships, including petty production. The socialist transformation was no longer to be a "pauper's transition" (as the "gang of four" were accused of advocating.) Again, justification could be found in Marx's writings.

The two approaches to development and transformation are linked by a preoccupation with defining the "correct" relationship between these two crucial elements in Marxist theory, the forces and relations of production. Any definition of development in this context must include a conception of that relationship, and how that relationship is conceived has a major influence on the definition of development adopted.

In China, the lines of this debate go back to the translation and circulation in the mid and late 1950s of Stalin's Economic Problems of Socialism in the USSR and the Soviet Textbook on Political Economy, and the publication in the early 1960s of Mao's "Reading Notes" on these two books, written during and just after the Great Leap. Essentially, Stalin and the Soviet textbook portrayed socialism as a coherent system with its own "objective economic laws," in which socialist relations of production, in the form of state ownership, had already done away with private ownership, and the dictatorship of the proletariat meant that classes and class struggle no longer played a major

role. Continuous development of the productive forces would proceed, without any need for major changes in the relations of production, until communism was attained.[7]

Mao, of course, disagreed. He based his opinion on the Chinese revolutionary experience. Where the Soviet textbook called the development of large industry "the basis for the socialist transformation of the economy," Mao countered,

> All revolutionary history shows that the full development of new productive forces is not the prerequisite for the transformation of backward production relations. Our revolution began with Marxist-Leninist propaganda, which served to create new public opinion in favour of the revolution. Moreover, it was possible to destroy the old production relations only after we had overthrown a backward superstructure in the course of revolution. After the old production relations had been destroyed new ones were created, and these cleared the way for the development of new social productive forces. With that behind us we were able to set in motion the technological revolution to develop social productive forces on a large scale. At the same time, we still had to continue transforming the production relations and ideology.[8]

In the "Reading Notes", Mao unequivocally stressed the primacy of the relations of production over the productive forces: "To be sure, the revolution in the production relations is brought on by a certain degree of development of the productive forces, but the major development of the productive forces always comes after changes in the production relations." As for the Soviet claim that socialism makes for unanimity, and unanimity is the "motive force of social development," Mao instead stressed contradiction: "Without contradiction there is no movement, and society always develops through movement. In the era of socialism, contradiction remains the motive force of social development."[9]

This view was not only a critique of Soviet economics, it was also a critique of the position championed by Liu Shaoqi and adopted at the Eighth Party Congress of 1956, which claimed as Stalin had, that socialism had "in the main" been established in China, and class contradictions basically resolved, and that the principal contradiction now was that "between the advanced socialist system and the backward productive forces of society." [10] There was no need for further changes in the relations of production, now that the bourgeoisie was separated from the source of its power (i.e. its ownership of the means of production); the primary task now was to develop the productive forces, to allow them to "catch up" to the advanced relations. During the Cultural Revolution, this conclusion came to be reviled as the "so-called theory of the productive forces."

Although Mao apparently endorsed the consensus of the Eighth Congress, by the following year the published version of his "contradictions" speech, which took a much tougher line on class struggle, indicated a change of heart. Mao's views of course set the agenda for the Cultural Revolution. The belief that changes in the relations of production would bring about development of the forces, was basic to the development strategy adopted during that period.[11]

Later these ideas formed the basis for a theory of socialist transition developed in the mid-1970s by the "Shanghai school" of radical economists which included "gang of four" members Zhang Chunqiao and Yao Wenyuan. Although their book was never actually published, their views were extensively criticized

by economists in the early 1980s, and this critique formed the basis for the current view of the socialist transition, from which much of the current economic reform draws its theoretical support.[12]

For the Shanghai school a major preoccupation was the problem of capitalist restoration. True, China was already a socialist country in which the system of ownership had been transformed. Yet it still had capitalist elements such as commodities, money wages, wage differentials, within primarily socialist relations of production. These elements "form the material base for the constant production and reproduction of capitalism as well as a 'new bourgeoisie' in socialist society." [13] At the centre of the Shanghai school's argument was a critique of the "so-called theory of the productive forces" which they felt could form the ideological basis for capitalist restoration since it denied the importance of continuing class struggle within socialism. Instead it gave primacy to the development of the productive forces, which allegedly strengthened the position of the "new bourgeoisie."

Not surprisingly, this position was harshly criticized after the death of Mao and fall of the "gang of four."[14] In the end it was replaced with a new conception of the socialist transition which echoes that of the 1956 Eighth Party Congress, where Liu Shaoqi proclaimed that the major contradiction now was between the advanced relations of production and the backward productive forces. In the late 1970s and early 1980s this was elaborated into a conception of the transition process which

portrayed economic development as the central task of the socialist era. This era was now seen to consist of two phases, undeveloped and developed socialism, and two transitions, from capitalism to undeveloped socialism, and undeveloped socialism to developed socialism. The "present stage" the theorists so often referred to was undeveloped socialism. To effect the transition to developed socialism called not for more class struggle, but for rapid and uninterrupted development of the productive forces. This in turn called for a new economic development strategy.

Undeveloped vs. Developed Socialism

Various Chinese economists elaborated this position in articles published after 1978. A 1982 compendium on the theoretical issues surrounding the individual economy makes explicit the link between the development of the means of production and the development of socialism. The two, they argue, are inseparable:

> Without doubt, socialist relations of production can only be based on socialized large production, and not on household petty production; at the same time, the economic structure of the socialist historical stage has the public-ownership economy as its principal component, and the national economy is characterized by economic planning. This is because the socialization of the productive forces--or socialized large production--on the one hand requires the socialization of the relations of production (or public ownership of the means of production), and on the other hand requires socialization or planning of the national economy, i.e. the planned organization of social production.[15]

In a country where the forces of production have already developed under capitalism, it would be theoretically possible to directly enter the stage of "fully-developed socialism" (i.e. a

developed economy in which socialist relations of production prevail), after only a short transitional phase. As Su Shaozhi and Feng Lanrui describe it,

> The characteristics of developed socialism ... are very clear. In this stage, the forces of production are highly developed, the level of mechanization and automation is high, material production is abundant. In ideology, communist consciousness is at a very high level, and has already eliminated small-producer habits and mentality ... Marx originally thought that socialist revolution would take place first in advanced capitalist countries. There, after "labour pains", they could enter this stage [of advanced socialism] ...[16]

But in China, as in the Soviet Union, this was not possible. With underdeveloped economies in which household petty production rather than socialized large production predominated at the time of the revolution, socialist relations of production could only be established fairly quickly in the more advanced capitalist sectors, usually by means of direct appropriation by the state. In the petty-production sectors (notably agriculture but also commerce and handicrafts) steps could be taken toward cooperativization or collectivization (which are changes in form). But to achieve full socialization in these sectors, as socialization is defined above, also requires changes in the substance of the production process itself. This is now seen as a very long process, during which the non-socialist sector or sectors will continue to occupy an important place in the economic structure: "We cannot think that socialism from its very inception can immediately achieve or construct a material basis

of solid and uniform socialized large production, upon which to immediately construct a purer-than-pure socialist public-ownership economic structure and 100% planned national economy."[17]

The stage after the proletarian revolution but before the full emergence of a developed and socialized economy, is referred to as "undeveloped socialism":

> The characteristics of undeveloped socialism are: two forms of public ownership exist, as do commodity production and commodity exchange, and the bourgeoisie as a class has already basically been eliminated. But there are still remnants of capitalism and capitalist elements, even remnants of feudalism; there is still a considerable proportion of petty producers; between agriculture and industry there are still class differences owing to unequal relations of production and unequal development of the forces of production; small-producer habits and mentality are still rampant; the forces of production are still undeveloped; and products are still in short supply ... Therefore, the period of socialist transition still has not been completed.[18]

Can such a society be described as socialist? According to these authors, the answer is both yes and no:

> Not only has the proletariat seized power and set up a proletarian dictatorship, but we have also basically completed the socialist transformation of the ownership of the means of production; the broad masses under the leadership of the party are determined to make the transition to socialism--to say we are a socialist country is perfectly acceptable. However, we still cannot say that we have already established Marx and Lenin's first stage of communist society (that is, socialist society). We still have capitalist and even feudal remnants, petty production still plays a significant role, and petty-producer habits and mentality are still rampant. This shows that we are still an undeveloped socialist society; we are still in the socialist transitional period, we cannot think of our economic system as developed or complete socialism.[19]

This view, it appears, has become orthodoxy; China is now seen to be in the process of transition from undeveloped to developed socialism, in which socialist relations of production have been substantially achieved, and where attention must now be

turned away from class struggle and toward the problem of development of the forces of production; this is the only way of bringing about the orderly transition to the next phase, advanced socialism.[20] Xue Muqiao in the 1986 revision of China's Socialist Economy (first published in 1981), repeats much the same formula:

> Should not socialism also be divided into several phases? ... Before all means of production come under ownership by the whole society, there is a period in which two systems of socialist public ownership exist side by side. This is the immature stage of socialism, in which China now finds itself. Recognition of this point is highly important because it helps to prevent a premature application of certain principles applicable only to the first phase of communism defined by Marx.[21]

Xue goes on to say:

> We should fully recognize the protractedness of the socialist period and its division into stages. In the present historical stage, what we whould do is to persist in making the state economy play the leading role and to develop varied economic forms. We should not be over-anxious to transit from one stage to another. If we try to do that, the growth of productive forces will suffer, much to the detriment of the consolidation of the socialist system and the transition to communism.[22]

Where the Shanghai school saw socialist society as nothing more than a relatively undifferentiated transitional phase between capitalism and communism, the post-1978 theory stresses the importance of recognizing the phases within the socialist stage. This is a crucial distinction from both theoretical and practical points of view. Proponents of the "stage" theory charge that past misconceptions on this point led to a reversal of the proper relationship between relations and forces of production, giving the former continued primacy over the latter. In practice this led to undue emphasis on class struggle and

rapid institution of "socialist" relations of production, at the expense of economic development. In effect, by failing to recognize that China was in the process of transition from undeveloped to developed socialism, the Shanghai school failed to recognize that the first battle had already been won, at least for the time being. This can and did have grave political consequences, as Su and Feng point out:

> In the first stage of the transitional period ... there are many different elements in the economy, and correspondingly there are several classes; the contradiction between proletariat and bourgeoisie, or the contradiction between socialism and capitalism, is [seen as] the major contradiction. ... If we conceive of [the transition from] capitalism to undeveloped socialism and from undeveloped socialism to developed socialism as just one stage, then we see this contradiction as running through the whole historical period, so that throughout this period there will be incessant waging of class struggle ...[23]

The negative impact on the economy would be at least as serious:

> Taking the tasks that should be done in the period of advanced socialism, and doing them during the period of undeveloped socialism, meant prematurely doing away with individual economy and abolishing private plots and family sideline production; [it meant] thinking of abolishing <u>an lao fenpei</u> [distribution according to work] as well as commodity production and commodity exchange, and opposing material incentives ... [W]e even became eager for the transition to communism. The result has been to dampen the enthusiasm of the masses for socialism, damage the relations of production, and also do serious damage to the forces of production.[24]

<u>Discussions On Ownership Structure</u>

The "Maoist" and post-1978 theories of development also differed significantly in their interpretations of the term "relations of production" itself. Mao had emphasized that relations of production consisted of three elements: "ownership

of the means of production, the relations among people in the course of production, and the distribution system." Although transformation of the system of ownership was "the base", even there contradictions would continue to exist; transformation of the other two aspects of production relations might prove to be even more complicated.[25] This point was taken up by Zhang Chunqiao in 1975, as the basis for the argument that class struggle must persist even after the system of ownership has been transformed:

> ... on the problem of the system of ownership, as on all other problems, we should pay attention not only to its form but also to its actual contents. It is perfectly correct for people to attach importance to the decisive role of the system of ownership .... But it is incorrect to attach no importance to whether the issue of the system of ownership has been resolved in form or in reality, to the reaction exerted on the system of ownership by the two other aspects of the relations of production--the relations between men and the form of distribution--and to the reaction exerted on the economic base by the superstructure; these ... may play a decisive role under given conditions. Politics is the concentrated expression of economics. The correctness or incorrectness of the ideological and political line, and the control of leadership in the hands of one class or another, decide which class owns a factory in reality.[26]

According to Zhang, "bourgeois right" could continue to exist in these other aspects of production relations and could easily give rise to the restoration of the bourgeoisie. The simple transformation of ownership was not sufficient to prevent this. An important element in the post-1978 critique of this view was the reassertion of the primary importance of ownership. In the "stages" theory, the decisive event in the transition from capitalism to the first stage of socialism was the establishment of the two forms of collective ownership. Once this was

accomplished, China could be said to be a socialist country. Further development of socialism would take place on this basis, and development of the productive forces would ensure that socialist relations in name would also become socialist relations in content.

But the recognition that China is in the process of transition from an undeveloped to a developed form of socialism, as Su and Feng pointed out, also included recognizing that during this transition, different relations of production--that is, different forms of ownership, including non-socialist forms--would have to coexist for a long time to come. It was not enough merely to accept this situation; rather the potential of each element in the economy to contribute to development of the productive forces should be recognized and exploited.[27]

To this end, in March-April 1981 a national conference on the "structure of ownership of the means of production in our country at the present stage" was held in Chengdu.[28] The discussions were extensively reported and summarized in the academic press, and also formed the basis for a major theoretical treatise on the individual economy, published the following year. The conference's treatment of relevant questions will form the basis for much of the discussion below.[29]

The discussions were cast within the framework of the development model outlined above. The conference was prompted, according to the published reports, by actual changes in the form and structure of ownership which had emerged after the Third Plenum, as well as from the formal adoption of the principle:

> ... that in our country's present stage, many different economic sectors and many forms of business should be allowed to coexist, with socialist public ownership in the overwhelmingly predominant position. The adoption of the above-mentioned series of principles and policies [since the Third Plenum] has promoted the readjustment of the structure of ownership in our country's urban and rural areas. Because this has been compatible with the requirements arising from the nature of the productive forces, it has promoted the development of the productive forces. This has been demonstrated particularly clearly in agricultural production and rural economic life. At the same time, these changes have also given rise to many new developments and new problems related to the form and structure of ownership of the means of production, requiring us to study them and to provide answers based on theory.[30]

In other words, actual changes in the structure of ownership, resulting from changes in economic policy, necessitated a re-evaluation and restructuring of theory to accommodate them.[31]

The various reports stressed that the very subject of the conference, the structure of ownership in socialist society, was a new problem for Chinese theoreticians. The recognition of its importance arose out of the critique of "leftist" policies on ownership, which stressed rapid transformation to socialist forms, and ultimately complete eradication of anything else. Hence there was little need to study the structure of ownership.

The conference delegates isolated three kinds of "leftist errors" which emerged in the process of transforming the system of ownership. The first was that, "not understanding that extreme imbalances in development of the productive forces determines imbalances in development of forms of ownership," geographical and sectoral disparities were ignored in the various campaigns to transform non-socialist forms of enterprise: "For

example, in the transformation of private capitalist industry and commerce and the agricultural cooperativization campaign, we didn't do a very good job of implementing the policy of giving different treatment according to different local conditions." The second "error" was the assumption that "the larger the entity of ownership, the better for the economy, and the higher the level of public ownership the better. The outcome was blind expansion of the scale of units of ownership, divorced from the level of development of the workers and the means of production."[32]

The third leftist "error", according to conference delegates, was denying the fact that socialization of the means of production and raising of the level of public ownership are a process, rather than an act which can be accomplished instantaneously by passing a few regulations: "We attempted to eliminate non-socialist economic forms like individual economy in a few mornings, and when some of these forms tenaciously persisted in re-emerging, we were just as persistent in launching campaigns to transform [their] ownership."[33]

According to the conference delegates these "leftist errors" were caused by deficiencies in both empirically-based analysis of the economy, and theoretical understanding of the process of social transformation:

> Some comrades believed that one important reason was an inadequate understanding of our national conditions, divorced from such features as the low degree of socialization in production ..., the low level of development of the commodity economy, and imbalances in the development of the productive forces. Some comrades felt that theoretically, the main errors included violating the law that production relations must be compatible with the nature of the productive forces, placing one-sided emphasis on the action of the productive

> forces on the relations of production, and stressing the ceaseless transformation of ownership while neglecting the relative stability of productive relations.[34]

In combination, these theoretical and empirical deficiencies caused a "lack of clearheaded appraisal of our country's national conditions, a denial that to carry out the socialist transformation requires a material base, the belief that carrying out revolution and establishing socialism would be a lot easier in economically backward China than in developed capitalist countries.[35]

Thus the problem of China's ownership structure after the socialist transformation had never really been taken seriously before. But now that it was recognized that the transformation would take much longer than anticipated, it was necessary for economists to develop a theory of the structure of ownership under socialism. They began with a definition:

> The use of the formulation "the structure of ownership of the means of production at our country's present stage" at the conference refers to the structure of ownership at a specific stage of socialism, that is, to the nature, form, status, and interrelationships of the various types of ownership at the present stage, in addition to the forms in which they are realized.[36]

Arguments regarding the appropriate structure of ownership at "the present stage" hinge principally on the notion that the nature and structure of ownership within an economic system at a particular historical juncture is "basically ... determined by the nature and level of the productive forces," and must reflect spatial and sectoral disparities in development. For China at the present time, the consensus was:

> ... because the level of development of the productive forces is low, and development ... in the different regions, sectors, and industries is extremely uneven, we can only establish a structure of ownership in which various forms of ownership coexist under the conditions that socialist public ownership occupies the dominant position.[37]

This formula, in one form or another, has been repeated in virtually every article published since 1978 on the individual economy, on the various other forms of ownership, or on the ownership structure itself. Since it is the major theoretical justification for the reinstatement and development of the individual economy, its theoretical underpinnings deserve further elaboration.

Forces and Relations of Production

The notion that the structure of ownership is "basically determined" by the level of the development of the productive forces is supported by the passage from Marx quoted at the beginning of this chapter. Two important points should be noted. The first is the primary importance which Marx attaches to the relations of production, as expressed in property (or ownership) relations. For Marx, the economic structure of society is precisely the sum total of these relations. For Marxist economists, then, ownership is a key theoretical question because it reflects relations of production, which in orthodox terms are the economic base upon which a social formation rests.

Secondly, Marx asserts that these relations of production correspond to a definite stage of development of the forces of production, and that a social order does not perish before the

productive forces embodied within it have developed fully; new and "higher" relations of production--that is, a new economic structure--do not appear before the material basis for them has developed within the old society. This supports the interpretation that development of the forces of production is the precondition for--and not the product of--social transformation.

These two points form the basis for recent Chinese theoretical explorations of the structure of ownership appropriate to China in its present stage of development, and the place of the individual economy within such a structure. In brief, the search is for relations of production which are suitable not only to the present stage of development of the productive forces, but which will also promote their further development--and presumably end in creating the conditions necessary for the transition from socialism to communism.

Although Marx only speaks of a relationship of correspondence, and not of determinism, between the forces and relations of production, Chinese theoretical writings on the subject tend to use the two terms interchangeably; if anything, they say more often that structure of ownership is <u>determined</u> by the level of development of the productive forces. It happens that the meaning Marx intended by using the term "correspond," is a subject of contention among Western Marxist theoreticians. There is one school which supports the Chinese view; according to G. A. Cohen:

> ... production relations are said ... to correspond to productive forces at a certain stage of development of the latter. Controversy rages around this word. Commentators disagree on whether its use implies that the productive forces enjoy explanatory primacy over the productive relations. We hold that is precisely what it implies ...[38]

Cohen argues that Marx's statement can only be supported by a form of functional explanation: "... to say that an economic structure corresponds to the achieved level of the productive forces means: the structure provides maximum scope for the fruitful use and development of the forces, and obtains because it provides such scope."[39] Although such a functional explanation does not necessarily imply a relationship of determinism, this is obviously what is meant: " ... the prevailing production relations prevail because they are relations which advance the development of the productive forces. The existing level of productive power determines what relations of production would raise its level, and relations of that type consequently obtain."[40]

This point of view begs the question of "mechanism"; it provides no answer to the question of, in Cohen's words, "how productive forces select economic structures which promote their development."[41] Post-1978 Chinese theoreticians argue that once class struggle has been decided in favour of the proletariat, the context exists in which the right choices can be consciously made, by the workers or by the state which supposedly represents their will, but only if these choices are based on accurate analysis of the objective situation. This was the issue behind the promotion in 1978 of Deng's "practice" criterion and the

exhortation to "seek truth from facts," in opposition to the "whateverist" faction of Hua Guofeng.[42] Past efforts to advance the relations of production prematurely were, in the current view, doomed to fail not so much because they were predicated on voluntarism or "subjective will," but because they were based on an inaccurate assessment of China's state of readiness, caused by the conceptual reversal of the proper relationship between the forces and relations of production.

If relations of production are artifically created which do not correspond to the existing level of the productive forces, it is argued, these will not only fail to raise the level of the productive forces, they will actually, in marxian terms, "fetter" the forces of production. This is precisely, current theory argues, what happened during the Great Leap Forward and the Cultural Revolution; it was the damage created by these movements that had to be corrected by post-Third Plenum policies. So that the productive forces could continue to develop, an ownership structure had to be established (or re-established) which took into account the generally low level of the development of the productive forces, as well as spatial and sectoral disparities.

Thus Chinese theoreticians are necessarily concerned with the issue of mechanism, of how the relations of production relate to the level of development <u>in practice</u>? And furthermore, how can the "correct" relations be selected, and by what criteria should they be judged?

This has been a subject of some debate in the economic literature. The general conclusion appears to be that the relationship between the forces and relations of production is a kind of reciprocal feedback process--a dialectic, in fact. As a succinct review of the debate by Wang Shuwen puts it: "The relatively unanimous opinion is that the forces of production determine production relations, and the relations of production react upon the productive forces. Under normal circumstances, this reaction manifests itself by promoting or retarding the development of the productive forces."[43]

Although in a situation of true determinism the relations of production could not be tampered with voluntaristically (except, presumably, in "an epoch of social revolution"), in fact the relationship is generally seen by Chinese theorists as one which can and should be manipulated in order to promote development. The "correct" relations of production--or those most effective in promoting economic development--can be ascertained through a combination of practical investigation and theoretical analysis. And once ascertained, they can be realized in practice by means of appropriate economy policy.

The criticism of past policies was not simply that they tried to voluntaristically alter relationships that are properly determined by the forces of production; such alterations are permissible. The problem was that the effort was misguided because it was based upon an incorrect analysis of the actual condition of the productive forces, and on the erroneous belief that a change to more "advanced" relations of production would

somehow help to advance the productive forces. That is, they ignored Marx's admonition that "higher" relations of production cannot appear before the material basis for them has developed within the old society. Thus China was not ready for the "great leap" to fully socialist relations; these can only exist in a fully developed economy, and development had to be accomplished within the existing constellation of social relations. The development of the forces of production in this view is both the prerequisite and vehicle for--but not the product of--social transformation. It can be promoted by the right structure or mix of productive relations, and retarded by the wrong one, but it cannot be brought about merely by forcing the relations of production to some theoretically-determined "higher" stage.

This view calls for a radical reinterpretation of the meaning of "progressive" or "socialist" when applied to relations of production. If China is now involved in the attempt to move from undeveloped to developed socialism, and this can only be achieved by developing the forces of production, then presumably any policy that promotes the development of the forces of production is also bringing China that much closer to socialism--and hence can be seen as "progressive." (This is, of course, an argument which ignores class struggle altogether.)

The most extreme expression of this idea is contained in several widely-reprinted articles written in 1980 by Yu Guangyuan, Vice President of the Chinese Academy of Social Sciences.[44] Yu begins unequivocally:

> In my opinion, our basic attitude toward the problem of socialist ownership is: anything that can best promote the development of the productive forces, we endorse and support; anything that promotes [it], but only does so in a small way, we cannot endorse or support to the same extent; anything that hinders the development of the productive forces, we will resolutely oppose.[45]

Yu goes on to say that "... the only standard for weighing whether relations of production are good or bad is whether or not they can best promote the development of the productive forces. This is a basic viewpoint of historical materialism. For a Marxist, there can be no standard other than this one."

The principle that the relations of production must correspond to the level of development of the productive forces, Yu says, "is an objective law which holds for every society." Only under capitalism, however, were the revolutionary implications of this law fully realized; after the revolution, it could be used as a tool to achieve further, non-revolutionary, social development:

> Only when human society had developed into capitalist society, and after the birth of Marxism, could the proletariat, which took on the historical mission of burying the capitalist system, clearly understand this scientific law and use it to carry on the revolutionary struggle to overthrow capitalist relations of production, which after the industrial revolution fettered the development of the productive forces. With the stage of socialist society the antagonistic [class] situation changed; only after the proletarian party, armed with Marxism, seized state power and became the centre that directed social and economic development, regularly and consciously selecting the relations of production that suited most closely the development of the productive forces, did the unceasing forward movement of society become possible.

Thus he provides an answer to the question of "mechanism" raised earlier. Under socialism, the mechanism by which the

relations of production advance the development of the forces of production, is the conscious will of the workers or the party that represents them, "armed with Marxism."

But for the law to be applied properly, what is first needed is "concrete study of what relations of production have what effect on the development of the forces of production at what level of development." Only than "can we seek out and fix the relations of production which suit the current level of the productive forces and can best promote [their] development, and exert ourselves to overcome objective barriers encountered in establishing these relations of production."

Yu starts from the recognition that China has reached a point where reform of the ownership structure is necessary, and that reform must reflect changes that are already taking place:

Because the forces of production are always developing, although relations of production must be relatively stable, they are not absolutely and entirely immutable. Therefore this task of seeking the various relations of production suited to the continuously developing productive forces, is one which never stops.

Yu harshly criticizes the motives of those who have other ideas on the ownership question:

> Are there any other criteria in the minds of our cadres, aside from what can best promote the development of the productive forces? In the past there were, and now we still cannot say there are not. For example, the following attitude circulates among some cadres: socialist public ownership is unconditionally better than socialist collective ownership; ... the commune as the basic level of accounting is unconditionally superior to the production brigade, the production brigade ... is unconditionally superior to the production team [etc.] ...

Yu is clear on what these "other criteria" might be, and what they imply:

> ... [their] standard seems to be "yi da er gong" [literally, one large, two public], that is to say, in ownership "bigger" is better, and "more public" is better. Not basing themselves on the objective conditions of the time and place, nor on the kind of production relations that can further promote the development of the productive forces, they simply evaluate the degree of superiority of a certain form of socialist ownership according to the formula "yi da er gong." [This] is one basic reason why past policies connected with ownership were frequently wrong.

Furthermore, Yu charges, "they" make the mistake of applying this criterion to judge whether a particular form of ownership is "advanced" or "backward"; these concepts, he says, "must be considered in the context of the historical development of the mutual relationship between the forces and relations of production; in isolation from their connection with the forces of production, any discussion of whether relations of production are "backward" or "advanced" is totally pointless."

Nor should they be used to evaluate any future structure of productive relations; this too will have to be based on "... rigorous scientific research, even if we have to wait for the results and tests of historical experience. But in carrying out this kind of research, we still have to use as our guide the Marxist principle that the relations of production must correspond to the nature of the forces of production."

Other writers had other reasons for disagreeing with Yu, however, apart from believing in the principle of "yi da er gong". Some believed that in a socialist society development of the productive forces should not be the only criterion by which

the appropriateness of the structure of production relations should be judged. For example, one review of the theoretical issues surrounding the question of ownership cites an article by Su Dongbin, which argues that the correct criterion is neither "yi da er gong" nor the single-minded promotion of development. Instead, "it can only be whether the people's standard of living can continuously be raised." According to Su,

> First, ownership relations are economic relations, which are relations of material benefit; people themselves hold the pre-eminent position in Marxist economics. Secondly, we must not only evaluate the suitability of ownership to [developing] the forces of production, we must also evaluate the correspondence of ownership to the objectives of production. The establishment, consolidation, and development of socialist ownership does not just signify that it can promote the advance of the forces of production, it must at the same time reflect increasing benefit to the people. If it doesn't, then it isn't socialist.[46]

This debate on standards is a fascinating one, and crucially relevant to any understanding of what China's current leadership is trying to accomplish in the course of economic reform. It is perhaps indicative that while Su's opinion appeared in a specialist economic journal, it was Yu's viewpoint that was reproduced for mass consumption, both at home and abroad. Therefore it can be taken to represent the view the top leadership was trying to promote at the time.[47]

Returning to the issue of the relationship between the forces and relations of production, while the participants at the national ownership conference agreed with the basic premise that the relations of production are "basically determined" by the level of development, some disagreement emerged on two points: whether the determining influence was direct or was mediated

through other factors; and whether the level of development was the only factor influencing the structure of ownership. Apparently three schools of opinion emerged on these issues.

The first identified the mode of labour as the mediating factor between the level of development of the productive forces and the structure of ownership:

> ... the structure of ownership of the means of production ... is determined by the mode of production, and the mode of possession arising from a particular mode of production. The mode of production embodies two meanings: one is the social form of production, the other is the mode of labour. The social form of production must conform to the mode of labour, and the mode of labour is in turn related to the development of the productive forces. Therefore, the structure of ownership is ultimately determined by the mode of labour.[48]

According to this argument, in an underdeveloped economy dominated by individual or household labour, the dominant form of possession will be by the individual or household, and the ownership structure will reflect the predominance of this mode of possession. As the forces of production develop, socialized modes of labour will become more appropriate (collectivized labour in the case of a socialist country, capitalist types of organization in a capitalist one). The social form of production will reflect this change, as will the modes of possession, and in turn the ownership system will increasingly incorporate these socialized modes of possession. (The ultimate form of the ownership system will of course depend on the type of social formation in which these socialized forms of labour are found.) However, as long as individual labour exists, its existence will necessarily be reflected in the structure of ownership.

A second view was that, while the productive forces "constitute the ultimate decisive factor" in determining the structure of ownership, "other factors must also be considered." These include the "superstructure, historical conditions, and natural conditions." In this vein, some of the participants expressed the pragmatic view that the influence on the structure of ownership of special conditions or expedient measures, must also be taken into account: "For example, the need for the existence of individual economy, aside from [being determined by] the factor of the productive forces, can also be explained by the need to perpetuate special crafts, or to provide employment."[49]

Both of these lines of argument were opposed by proponents of a sterner and more strongly deterministic point of view, which

> ... opposed including elements other than the decisive role of the forces of production, such as the superstructure. Comrades holding this view believed that it is a basic principle of historical materialism that the forces of production determine the productive relations, and that the economic base determines the superstructure. While the superstructure reacts upon the economic base, it cannot determine the system of ownership. Thus influences and reactions cannot be confused with the decisive role. At the same time, we must distinguish factors that play a long-term role from those that play a temporary role; considerations of expediency are not decisive factors.[50]

This view did not deny that expedient measures to change the structure of ownership might be taken when necessary--but it relegated such decisions to the (superstructural) realm of policy. This appears, however, not to have been the dominant view. Far from rejecting expediency, there was much discussion

about the various factors of superstructure and expediency which should be included in consideration of the structure of ownership; these included

> ... its contribution to resolving internal contradictions in the productive forces, and ensuring the realization of the basic economic laws of socialism; as well [such factors] as the management abilities of the cadres, the ideological consciousness of the people, etc. Everyone felt that at present in our country the overall level of development of the productive forces is low, and also very uneven between the different industries and different regions; this means that in determining the structure of ownership of the means of production, we must proceed from reality, and not "cut with one knife" (yi dao qie).[51]

"Proceeding from reality" calls for an analysis of the overall economic structure as it currently exists, and then decisions about how to create a structure which is appropriate to the current condition of the forces of production, and moreover which is capable of promoting their development. The next step is the formulation and adoption of policies which will create the desired ownership structure.

To this end, theorists have devoted much discussion to speculating about what such an ownership structure should look like, enumerating its constituent elements, and thinking about the proper relations among them. Naturally there is nothing approaching a consensus on this issue. At the 1981 ownership conference, "It was generally agreed that in establishing a structure of ownership ... at our country's present stage, we must first have a tentative idea about an overall structure of ownership that is relatively compatible with China's national condition, but there was not complete unanimity on this tentative idea."[52]

Of the different viewpoints reported, most agreed that such an ownership structure would have to include the following elements, for the following reasons:

> One, socialist state ownership. Nationwide industries and large-scale enterprises which are connected to the national economy and people's livelihood (guoji-minsheng), which are socialized to a high degree and whose scope of production is wide, should have this type of ownership. Two, collective ownership. A great many enterprises in agriculture, light industry and commerce should fall into this category. Three, individual economy. In those industries or trades which the state-run and collective economies cannot handle, or handle with poor results, and in peripheral areas where the level of production is low, we can let this type of economy remedy the "omissions" (yi) and "deficiencies" (que) of the public-ownership economy. Four, state capitalism. This refers to Chinese-foreign joint-venture enterprises; its existence should be permitted in areas controlled by the state.[53]

Thus individual economy was seen by all to be a necessary component of the ownership structure. As to how long this state of affairs should continue, the term usually used is "long-term coexistence" (changqi bincun):

> Some comrades have raised the point that the ultimate aim of socialist revolution is to do away with all private ownership. But in the socialist stage itself, it is neither necessary nor possible to [reach this goal]. Under the present socialist stage, the individual economy will continue to exist for a long time. This is because the forces of production in socialist society are not yet sufficiently developed ... Under these circumstances, people's needs still cannot be totally satisfied [by the public-ownership economy]; the supplementary role of the workers' individual economy in satisfying these needs cannot be eliminated, so the individual economy must continue to exist.[54]

Implications for the Individual Economy

To briefly sum up the foregoing argument, the "law" of complementarity of forces and relations of production, means that the structure of ownership must incorporate those relations of production which reflect the uneven development of the forces of

production, and which will best promote their development. For many theorists in China, this is the only standard by which the suitability of particular relations of production or forms of ownership should be judged. Any perceived contradiction between this criterion and the requirements of building socialism is irrelevant; China is in the stage of "undeveloped socialism," where socialism has already been established and become dominant but where the productive forces are still at a low level. In order to proceed from "undeveloped" to "developed" socialism, what is necessary now, quite simply, is to develop the productive forces. Any measure which contributes to the development of the forces of production, also contributes to the development of socialism and is, therefore, "progressive."

The following quotation is a typical example of the way this line of argument has been used to justify the restoration of the individual economy:

> We cannot use people's subjective aspirations as a criterion; the only objective criterion is whether or not particular forms of ownership of the means of production conform to the needs of development of the productive forces ... Practice has already shown: urban and rural individual economy in our country at the present stage conforms to the needs of development of the productive forces, and can contribute to development of the productive forces. Hence we can see that, in our country at the present stage, the restoration and development of the individual economy advances the progress of the productive forces; it is certainly not some sort of regression. Historical experience tells us that limiting and outlawing urban and rural individual economy, obstructs the development of the productive forces, while restoring and developing [it] promotes the development of the productive forces. We start from the actual circumstances of the productive forces in our country at the present time, where socialist public ownership still cannot completely satisfy people's various needs. If we give some protection and support to the urban and rural individual economy, condone its existence and development, make it a supplement to the socialist public ownership economy, this is doing things

> precisely in accordance with the requirement of this objective economic law ... Because it conforms to the condition of the productive forces, it has advanced the development of the productive forces; in this case can we say that the restoration and appropriate development of the urban and rural individual economy is regressive? Obviously we cannot.[55]

Thus the legitimate place of the individual economy in the ownership structure is justified in theory by the "objective economic laws" of socialism. The next section goes on to look at how Chinese theoreticians view the individual economy itself, its "nature" and its own "objective economic laws."

The Nature of the Individual Economy

Much of the recent theoretical literature has been devoted to attempts to analyze the "nature" or "character" of the individual economy (geti jingji de xingzhi). It will become apparent that this is a controversial issue, heavy with political and ideological overtones. Basically the issue is whether or not individual economy is a variant of a particular mode of production (specifically, capitalist or socialist), or is a unique form of production found within various social formations. If it is a variant of either capitalism or socialism, then the question is, which? If it is seen as capitalist in nature, the question naturally arises, what is it doing in a socialist economy? If it is seen as socialist in nature, how can this be reconciled with what is after all its defining characteristic--private ownership of the means of production? If it is seen as a unique form of production, this raises questions about its

relationship with the dominant mode of production, the degree of autonomy it enjoys, the possibility of controlling and directing it, etc.

The summary discussions of this debate give the impression that, despite some dissenting views, an accepted (or at least acceptable) majority view exists on the key theoretical issues and on their policy implications.[56] This position may be summed up as follows: Individual economy is a form of petty commodity production, distinct from but existing within all the historical social formations, from slave society to socialism, with its own general defining characteristics, but varying in its specific forms according to the nature of its relationship with the dominant mode of production in any specific economic formation. Despite being a form of private ownership, it is not a form of capitalist production, and a clear theoretical distinction may be made between the two. It is also not a form of socialist production, and again it is important to distinguish between the two. There are important differences between individual economy under capitalism and under socialism, mainly expressed in the relationship between it and the dominant mode of production. Individual economy can and should exist, and indeed flourish, in economies dominated by socialist relations of production, at least while those economies are still at a low level of development, because of the positive contribution it makes to overall economic development. At the same time, because of its innate characteristics, the individual economy will always remain in a subordinate position in the overall economic structure.

Moreover, in a structure dominated by public ownership and state control, this subordinate position can be deliberately maintained through economic, administrative, and political means. In fact, it is necessary to do so because individual economy retains within it certain "spontaneous tendencies" which must be curbed in order to forestall the development of capitalism. The ultimate justification for all of this is that it conforms to the "objective economic law" that the relations of production must conform to the current level of development of the productive forces, in order to advance their development.

This summation of the "majority" view, however, masks a certain degree of theoretical controversy which has important implications for policy and ultimately for the future of the individual economy in China. The rest of this discussion will expand upon each of the points made in the previous paragraph, and also point out certain controversial areas where dissenting views have been raised. In general it seems that controversy is allowed to remain unresolved, or tabled for further study when it has no really serious policy implications. Where it does, a careful attempt is made in the major publications to indicate which is the "correct" view on the issue. Not surprisingly, the "correct" view is the one which conforms best with central government policy.

It should also be noted that most of these issues are not new ones which have arisen only since 1978. The following section discusses the geneology of one theoretical debate concerning the individual economy--that of the "spontaneous

capitalist tendencies" of petty production and the idea that small production, in Lenin's term, "breeds capitalism and the bourgeoisie daily, hourly, spontaneously, and on a mass scale." Unfortunately it is beyond the scope of this thesis to delve into the history of all the theoretical issues surrounding the question of the individual economy, although such a study would be fascinating.

The individual economy is defined by Chinese theorists as a form of petty commodity production. As such, it possesses two defining characteristics: one, the means of production are owned by the workers themselves (i.e. private ownership); and two, the owners are workers whose productivity depends on their own labour inputs, and not on the labour of others, and they work to satisfy their own needs (or those of their family) and not the needs of others (i.e. lack of exploitation). "These two [characteristics] are the standard by which individual economy is distinguished from other [types of] economy."[57]

Because it is a form of commodity production,

> Individual workers directly combine their own labour power and the means of production owned by them, with no exploiter intervening between them; and the products of their labour are owned by the individual. All or part of the product enters the market; with the object of obtaining, through exchange, one's own material means of livelihood.[58]

Although it has existed in every historical social formation, it is argued, petty commodity production "has never in history become an independent mode of production. Ever since its origins in the late stage of primitive society, it has existed

within the slave-owning, feudal, capitalist, and socialist social formations, and has always been subordinate to the currently-dominant economic form and been controlled by it."[59]

It has not been eliminated in social formations dominated by capitalism, and furthermore, as the author of the previous quote points out, "individual economy exists today in all socialist countries." The crucial point, however, is that although individual economy has existed within all of these economic formations, and been influenced by them all, it still maintains it own unique and separate character: "... although it is conditioned by the dominant economic relations of that society, even if it is an indispensable component of the economic structure of that society, it is still individual economy and not a component of the dominant economic relations of that society." [60]

Therefore, even under capitalism the individual economy, or petty commodity production in general, cannot be equated with capitalism. The distinction is generally summed up as follows (in a description most capitalists would take exception to):

> The individual owners themselves own the means of production, themselves produce their products, themselves own their products; the three are indivisible. But capitalists own the means the production and the products without engaging in productive labour. Just as Engels said, in individual economy "the right to the ownership of products is based on one's own labour." But in the capitalist economy, "the owner of the means of production comes to own the products, although these products are already not his own, but are completely the product of the labour of others."[61]

As another study puts it,

> Although urban individual economy owns a small amount of factors of production, and really has the character of private ownership, nevertheless it directly combines workers with the factors of production, its production and operations are based on individual labour. Operators of individual firms are independent labourers who eat what they produce, and don't exploit others. But under capitalist private ownership, the workers are alienated from the factors of production, capitalist operations are built on a base of exploitation of hired labour. Therefore, urban individual economy is not an economy which is capitalist in nature.[62]

There has been some controversy over this point, however. Xu and Gao, for example, argue that in any kind of society, the nature of the individual economy "is conditioned and determined by the economic system holding the dominant position in that society," to the point where it actually takes on the nature of the dominant form. Under capitalism, they argue, individual economy is appended to private ownership. Conditions of competition repeatedly cause some individual entrepreneurs to grow into full-fledged capitalists, while others are absorbed into the proletariat. "Obviously, the individual economy under the capitalist system really has the character of capitalism."[63]

One major criticism of this view, however, is that it leads to very bad policy decisions. Past "leftist" policies toward the individual economy were based, it is now felt, upon an incorrect theoretical understanding of its basic nature; it was equated with capitalism, and therefore it was necessary to eradicate it. This view has been roundly condemned, but obviously not put to rest: "Even now, some comrades still believe that individual economy is capitalist in nature; they do not dare to, and do not wish to, allow the appropriate development of the individual economy. This view is incorrect."[64]

The same authors who argue that under capitalism, individual economy is capitalist in nature, similarly argue that under socialism, individual economy is actually "socialist in nature." Under socialism, individual economy is appended to public ownership of the means of production, and is subordinate to state and collective economies. The state decrees that individual operators will not control the major means of production and cannot exploit workers, and it controls other aspects of its operations. Such things as materials, supplies, and operating space are mostly controlled by state and collective enterprises or agencies. Also,

> ... the objects of the individual economy's services are not the exploited class, but the socialist state, the collectives, and the great masses of working individuals. Thus, between individual operators and the employees of public-sector units, there does not exist a relationship of exploiter and exploited, or big fish eating small fish, although the social division of labour is unequal, they all are socialist workers ...[65]

From this they conclude that in a socialist system, the individual economy is in fact socialist.

In this view, the importance of the private-ownership aspect of individual economy is discounted. Criticizing this position, one study charges: "Some comrades even think that because the individual ... sector is closely associated with the socialist ownership system, under the socialist system the workers in the individual ... sector are only participating in a form of labour, and by no means do they represent the existence of private ownership."[66]

Another author goes even further. In a fascinating article, Wang Shouchuan argues:

> Like the possessors of land, mountain ranges, rivers, animals and plants, mineral resources, coastlines, etc, [individual operators] operate under public ownership. Because socialism has abolished private ownership, the means of production belong to the workers in common, there are no longer any people in society who, based on their ownership of the means of production, come to possess the surplus labour of others; the means of production are no longer the condition and means for the exploitation of others ... When all they have are stalls, pushcarts, shoulder-poles, etc., basically this is not capital, and it cannot become the condition or means for exploiting other people. Also these so-called means of production are even more their means of subsistence. Individual operators' right to possess socialist means of production, the direct combination of socialist means of production and individual labour, the indivisibility of their means of production and means of subsistence, all these explain the socialist nature of individual commerce, all constitute the basic characteristics of socialist individual commerce.[67]

Wang goes on to argue that individual operations are in fact a form of social labour:

> The labour of every worker who undertakes individual operations, from the beginning has a directly social character, the labour power in individual operations is social labour power, individual labour is a necessary component of the totality of social labour, ... it is an individual form of socialist labour ... The labour that individual commercial operators perform, we could say in essence (benzhi) is not really private in nature. In form it seems as if they work for themselves, but in essence they work for society.[68]

Furthermore, the promotion of individual enterprise is part of a program to perfect the socialist economy and contribute to socialist modernization: "The development of individual commerce is [part of] the readjustment and reform of socialist relations of production."[69] Wang concludes by arguing that the principle that the level of the forces of production determines the relations of production does not mean that state ownership

reflects a "high" level and individual operations a "low" level of development of the productive forces. This belief is "the continued manifestation of the mistaken'leftist' ideology that the more centralized the management forms are, the more public they are, and the bigger the mode of operation, the more advanced it is." Wang supplies a new standard:

> Actually, under socialist public ownership, the level of the productive forces is mainly determined by the ability of the workers and the full development of their abilities, and by the [level of] advancement of their productive tools. We have seen from the reality of newly-restored individual commerce, individual commercial operators' productivity and their dedication to the country, are almost always higher and greater than in state-run and collective commerce.

Therefore, he concludes, "For these reasons we say individual commerce is not in nature capitalist or feudal, and is also not, as some people feel, in some way lacking a nature, but is socialist in nature."[70]

This is a minority view, however. For most theorists, the individual economy's presence within the socialist economic structure, even its positive contributions to the socialist economy, are evidence not of its "socialist" nature, but of the subordinate nature of petty commodity economy within any dominant mode of production. Although it is linked to the socialist economy and has an important role to play in it, it cannot in itself be considered socialist:

> Under socialism, the operations of the individual economy must be conditioned by the socialist economy. But its nature cannot be changed by this. We cannot say that just because the individual economy in various respects can play a positive role, [then] it is socialist in nature.[71]

Not only is there no logical basis for the argument that individual economy is socialist in nature, it critics object, but it can also lead to some absurd conclusions: for example, if the "socialist" individual economy grew so large and powerful that it replaced public ownership as the dominant force in society, in this theory the society would still be considered socialist (which it clearly would not be); secondly, taken to its logical extreme, it would argue that there is no essential difference between private and public ownership. Still, the argument clearly has some appeal, if only because it does away with the theoretical problems created by the presence of private ownership within a public-ownership economy.

The opposing view points out that although in the present situation, the individual economy is appended to and supplements the socialist economy, depends upon it for its existence and reproduction, and contributes to socialist accumulation, these are external linkages only. They should not create confusion about the innate nature of the individual economy, which is based on private ownership rather than public, on individual and competetive interests rather than collective and "comradely" ones, on the linking of levels of consumption with success in business rather than with labour performance alone, on the laws of the market rather than on planning, and on satisfaction of individual or family needs rather than those of society.

In short, the nature of the individual economy, or indeed any particular economic form cannot be deduced from what are

called its "external relations" or "external conditions." Apart from being theoretically incorrect, such a mistake would have (and has had in the past) egregious political consequences:

> If its nature is determined from its external conditions alone, then individual economy under capitalism will wrongly be seen as capitalist economy, and in practice this will lead to "leftist" errors; and individual economy under socialism will wrongly be seen as socialist economy, in practice leading to "rightist" errors.[72]

Such "leftist" errors, it is argued, have in the past led to excessive restriction of the individual economy, while "rightist" errors have led to overly lenient policies. The only tenable position, from a policy point of view, is to see individual economy as a unique form of production, neither capitalist nor socialist in nature, "conditioned" by the dominant mode within which it operates, and subject to control and guidance calculated to promote its "healthy" development.

On Subordination

Those who argue that individual economy is neither capitalist nor socialist, also say that while the individual economy maintains its own unique character in any social formation, it is always "conditioned" by the dominant mode. Thus although it is always characterized by the combination of private ownership and labour by owners, it also takes on some of the characteristics of the dominant mode of production. An understanding of its nature at any given point must take this fact into account, and look to history for the sources of its present-day characteristics.

For example, the complex nature and multitude of forms of individual economy in China today, even thirty years after the "socialist transformation," is largely explained by its complex nature before the socialist transformation. "Old China" is seen by theorists as a complexly-structured economy in which all the historical stages of social development--primitive society, slave society, feudalism, and capitalism--coexisted. In such a structure the individual economy cannot be seen as a component of any single mode of production; in different regions and within different sectors of the economy in any one region, it had different characteristics and played a different role:

> In general, in the southeast coastal areas where the commodity economy was relatively well-developed, the individual economy possessed to quite a large degree the characteristics of commodity economy, and was a supplement to capitalist economic relations; but in the interior, under the tight control of feudal relations, it was the object of exploitation by feudal relations and the base upon which they were built ... In old China, because the makeup of the economic structure of different regions was very different, the development process and nature of subordination of the individual economy also varied.[73]

According to this argument, individual economy under socialism--an economy dominated by public ownership of the means of production--differs in significant ways from individual economy not only under capitalism, but also in pre-capitalist formations, and in the mixed formation which existed in China before collectivization. These differences are all connected with the nature of its relationship to the dominant mode of production. First, it is dependent on the public-ownership economy for its existence and development. Secondly, a portion of its surplus labour reverts to the state through taxation, and

thus contributes to socialist accumulation. Third, the individual economy "is not only a sector of workers, it is a sector of workers who have already become masters of the country." Thus, theoretically its class interests are coterminous with those of the workers, and the party and state which represent them. Fourth, through its economic linkages with the public-ownership economy, it is subject to decisions made by planners, managers, and cadres, and thus is directly and indirectly brought within the sphere of planned production and circulation.[74]

Furthermore, some proponents of this view argue the (dubious) proposition that both the nature and degree of subordination under socialism are fundamentally different, and in fact more benevolent, than under any other mode of production: "In socialist society, these relations of subordination have undergone a fundamental change: it is a kind of voluntary subordination based on mutual benefit; the degree of closeness is unmatched by any other historical period."[75] Thus, some writers argue, the individual economy is actually better off under socialism than under capitalism. The compendium which came out of the 1981 ownership conference contains this remarkable passage:

> ... today when unemployment is so serious in capitalist countries, [individual economy] plays a very important role not only in alleviating unemployment but also in ensuring the stability of social production and consumption, and also in stabilizing the social order, although this is not [a result of] its own characteristics but only a kind of social function bestowed upon it by the basic contradictions resulting from the development of capitalist society. Therefore a lot of capitalist countries have even adopted administrative measures to protect medium and small enterprises, in which the individual economy is included, from bankruptcy, and have even encouraged the growth of small

> enterprises and petty production. However, administrative measures cannot defy the motion of economic laws; the everyday hardships which are the fate of petty production will not be alleviated, but will continue to grow. It is only because the capital requirements of individual economy are low, turnover is rapid, and they are very flexible, that as some fall, others can rise to take their place. Only with the advent of socialism can these misfortunes be averted, and [individual economy] find its true home.[76]

Even in its "true home", however, it will never come to dominate the economy:

> Within the economic structure of socialist society, the individual economy occupies a subordinate position; it exhibits true dependency. This is manifested in [the fact that] in all spheres of production, distribution, exchange and consumption, it must directly and indirectly rely upon the socialist public-ownership economy; it cannot [continue to] exist or develop in isolation from the socialist public-ownership economy. Its destiny and future are closely bound up with the socialist public-ownership economy. It cannot take primary responsibility for society's needs, nor can we depend upon it as the major force in realizing the construction of socialist modernization. Thus the subordinate position of the individual economy is determined by its own nature.[77]

By "its own nature" these authors are referring such characteristics as the low level of technological development and of capitalization found in most forms of individual economy:

> ... the individual economy has never represented the most advanced form of production. Its productive power is low, it uses handicraft-type implements, its facilities are simple, the scale of operations is small; also the production unit is the family or household, capital is limited, its economic power is insubstantial. Under these circumstances, it cannot be a strong or dominant economic element in the structure of society. On the contrary, for its own existence, it has to forge certain links with the economic element currently occupying the dominant position; it cannot help but be conditioned and fettered by it. This is the root cause for the subordinate position of the individual economy.[78]

In China, with socialism as the dominant "partner", subordination takes on a special meaning. Not only is petty commodity production (the individual economy) subordinate to

socialist production in a passive sense, the socialist state actively subordinates the individual economy as a deliberate policy. With an economy dominated by public ownership of the means of production, very heavy participation by the state in the running of the economy, and a government ruled by a party with a professed commitment to a socialist future, the state has at its disposal all the economic, administrative, and ideological tools necessary to keep the individual economy in its subordinate position while making full use of its potential contribution to the economy. In this context, subordination is not only a common feature which the individual economy shares with all forms of PCP in all social formations, it is also a deliberate strategy adopted by the socialist state to make use of the "positive" attributes of the individual economy while at the same time minimizing its "negative" effects.

Basically this is achieved through linkages between individual firms and enterprises in the state-owned and collective sectors, and through regulation and control by state organs. The fact that the individual economy flourishes only at the pleasure of the socialist state is also a powerful means of ensuring its subordination, as past experience has shown.

Since 1978, it could be argued, the treatment of the individual economy has changed from restriction to encouragement. But the continued ambiguity toward the sector, discussed at length elsewhere, is powerful evidence of continuity in the basic approach. While it is true that since 1978 the Chinese government has adopted the deliberate policy of encouraging the

growth of the individual economy, it has also at the same time most deliberately sought to maintain its subordinate position within the entire economic structure. Although the relationship is generally portrayed as a voluntary and mutually-beneficial one, each element in the economic structure is seen to have its own strengths and its own clear-cut position within a hierarchy of economic power. There is no question about where the ultimate power lies:

> ... state-run commerce is the primary element in the socialist market, it is the "main force" (zhuli jun) which guarantees people's basic needs and stable market prices; in commerce as a whole it occupies first place. Collective commerce consists of enterprises set up by the working masses with pooled funds, responsible for their own profits and losses, with earnings geared to labour input; within the socialist unified market they are the "local army" (difang jun) which is close to the people; in commerce as a whole they occupy second place. Individual stalls and shops are small and flexible, large in number, and geographically dispersed; they are found everywhere, they're open from morning until night, they're convenient for the masses, they deal in small general merchandise, snacks and drinks, minor repairs. Within the socialist unified market they are the indispensable "guerilla forces" (youji dui), occupying third place in commerce as a whole.[79]

So, the individual economy is indispensable, and its relations with the public-ownership economy are mutually beneficial. But there is no question that the real economic power belongs to, and will continue to belong to, the state (with the collective economy, as a more socialist and therefore less threatening element, somewhere in the middle.) The means for maintaining this hierarchy are many: structurally through various linkages at all stages of the production and distribution process; financially through taxation and banking; administratively through management and regulation; politically through

various kinds of organizations through which political participation is channelled. All these have a complementary effect; in the words of Gerry and Birbeck, "the principal conditions for its reproduction and survival are supplied by the dominant mode of production."

The details of this relationship have been discussed elsewhere, especially in Chapter 4, but the general categories can be outlined here. First, the state maintains a relatively high degree of decision-making power over what the individual economy will produce or deal in, and at what scale. This kind of control is decreed by law and is maintained through administrative agencies, and also through the state-run wholesale network, which is the primary souce of supplies and materials for the individual sector:

> ... therefore the kinds and quantities of products it produces and deals in, its scale of development and tendencies in production and operations, apart from the influence of market laws and demand, must also be conditioned by the limits and scale of the state-run and collective economy, and their relevant regulations. So ... small hawkers and peddlers have far from complete control over what they purchase, in what quantities, and when; to a certain degree these are controlled by the state wholesale departments.[80]

Moreover, the state-run wholesale outlets operate very much according to their own business priorities. Although individual firms are by law supposed to be accorded the same treatment as other kinds of customers, wholesale departments are also notorious for giving preferential treatment to the larger and more influential state-owned and collective units (as we have seen). In addition, these relationships must be maintained

through guanxi (which literally means "connections" but refers to a complex web of relationships maintained through favours and accumulated obligations.) Most individual operators have little of the kind of "capital" (e.g. influence, access to hard-to-obtain goods, long-standing business relationships, school or collegial ties, etc.) that is required to keep guanxi functioning smoothly.

The growth of individual firms is also controlled by a host of administrative and regulatory agencies. In this respect, the complaints of Chinese individual entrepreneurs echo those of small businesses in capitalist countries--too much government interference makes it difficult for them to survive, let alone compete with larger and more powerful firms. The difference in China is that this control can be used as part of a deliberate policy to limit the autonomy of the individual firms. Although the central government tries to prevent this, the fact is that these agencies can and do selectively grant or deny operating licenses or operating space, according not to the needs of the individual firms themselves, but to local or national economic and administrative priorities. Similarly, the growth of individual firms is limited by their access to credit. The banks can selectively grant or deny loans, and again these decisions are likely to be based on priorities set by the state.

Price control is another method of limiting the economic power of individual firms. It is possible to maintain quite stringent control of prices because most of the supplies and materials purchased by individual firms come from the state-run

sector, and selling prices are geared by regulation to the purchase price of materials and supplies. Selling prices for both goods and services must in general be roughly comparable to those charged by publicly-owned units. For example, in urban individual commerce,

> Their purchasing prices are already set by the state-run wholesale departments, and cannot be changed as they like. Therefore, when individual vendors purchase goods, they don't need to and are not allowed to bargain with the state-run wholesale departments. Whether their commercial transactions are successful or not, generally speaking, the purchase price of goods cannot be changed. Therefore, individual vendors can only decide whether or not to buy on the basis of set prices. When individual vendors are selling their merchandise, the selling price is also controlled to a certain extent.[81]

The general thrust of this argument is that a socialist state can and does exercise a far greater degree of control over prices in the private sector than is possible in a capitalist economy, where they are supposedly governed completely by the laws of supply and demand. This is of course an underestimation of the role of the state in capitalist economies, and also of the role of monopolies and combines in controlling prices. The idea, for example, that supply can be controlled and even destroyed in order to keep up prices, does not seem to have occurred to Chinese planners.

Another means by which the state exercises control over the individual economy is taxation; at least on paper, individual firms are required to pay taxes, and a fairly elaborate tax-collection network, which also has certain supervisory or policing functions, has been set up nationwide. Taxes can be

used selectively to promote or discourage particular kinds of business. Even for tax evaders, the threat of possible detection must act as a psychological curb on their activities.

Another important form of regulation is the limits on the permissible number of employees (again, often transcended but still on paper creating an upper limit to expansion of individual firms).

In addition to these economic and administrative curbs, subordination is also a matter for the political/ideological sphere. Many of the studies of the individual economy stress this as a crucial means of subordination, talking about the need to reinforce official views through propaganda and political activities, especially by means of the mass organizations for individual entrepreneurs. These methods too reinforce the dominant position of the state-run economy in the economic hierarchy.

Although the relationship is usually described as complementary and mutually beneficial, just as there is no question about where the balance of power lies, there is also no question as to what the ultimate aim is:

> ... the socialist public-ownership economy is the basic guarantee for the existence and development of the individual economy, and the individual economy is the helping hand and necessary supplement to the socialist public-ownership economy. Among the two one is primary and one is secondary; they depend on each other and help each other forward. Therefore, in developing the socialist economy we need to adopt a comprehensive viewpoint and implement the principle of walking on two legs, to mobilize and develop the positive role of both the socialist public- ownership economy and the individual economy, in order to spur forward the overall upsurge of the socialist economy.[82]

Subordination, then, is far more than simple government control or regulation of the activities of the individual sector. It is the tricky but vital task of maintaining the complementary but unequal relationship described above so that, in what is after all a socialist economy, the socialist sector remains in firm control. Where this is most important, of course, is in controlling what are called the "developmental tendencies" (fazhan qushi) of the individual sector; especially forestalling any tendency for individual economy to develop into capitalism.

Spontaneous Capitalist Tendencies

The final point in the "majority view" on the nature of the individual economy concerns the question of "spontaneous capitalist tendencies" in petty commodity production. This is an issue which has wider-reaching consequences--and a longer history--than any of the issues discussed in the previous section. It falls into the territory of what Cyril Lin calls the "diagnostic aspect" of socialist economics, which concerns the basic features or "laws" of socialism and ultimately the differences between socialism and capitalism. According to Lin,

> Such diagnoses in socialist countries are indispensable in gauging the direction and distance travelled away from capitalism and towards full communism; the nature of the economy charted by these periodic sightings then defines the type of policies, mechanisms and production relations ideologically consistent with the socialist odyssey.[83]

In the case of the individual economy, the results of the diagnosis may well determine its future in socialist China--and perhaps even the future of socialism in China.

This section will first briefly outline the historical roots of the issue of spontaneous capitalist tendencies and give two examples of how the issue has been treated at past junctures in the economic history of the PRC. It will then go on to examine how this issue has been treated in the theoretical rehabilitation of the individual economy which took place in 1980-81, when the key fear to be put to rest was the concern that its restoration would lead to capitalism. A critique of the arguments used to allay this fear will form the conclusion both of this section and the chapter as a whole.

Historical Roots: Lenin on Petty Production

The idea of the "spontaneous capitalist tendencies" inherent in petty production goes back to a statement made by Lenin in 1920, which has been used as unassailable theoretical justification for past campaigns to suppress the individual economy. Even in periods where the individual economy has been encouraged, the necessity to address concerns about the possibility of spontaneous resurgence of capitalism, has meant that the debate has never really been put to rest.

In the pamphlet "Left-Wing Communism"--An Infantile Disorder, Lenin asserts that "small-scale production engenders capitalism and the bourgeoisie continuously, daily, hourly, spontaneously, and on a mass scale."[84] In this manual on revolutionary tactics, he counsels the Bolsheviks to practice coalition politics to further the aims of the revolution, while at the same time maintaining rigid party discipline. Basically

it is about how to deal with the enemy in their midst, the bourgeoisie, and specifically what is to be done about the petty bourgeoisie. Lenin's misgivings about the petty bourgeoisie and their potential to help or hinder the revolution are clear. The paragraph in which the foregoing passage appears reads in full:

> The dictatorship of the proletariat means a most determined and most ruthless war waged by the new class against a more powerful enemy, the bourgeoisie, whose resistance is increased tenfold by their overthrow (even if only in a single country), and whose power lies, not only in the strength of international capital, the strength and durability of their international connections, but also in the force of habit, in the strength of small-scale production. Unfortunately, small-scale production is still widespread in the world, and small-scale production engenders capitalism and the bourgeoisie continuously, daily, hourly, spontaneously, and on a mass scale. All these reasons make the dictatorship of the proletariat necessary, and victory over the bourgeoisie is impossible without a long, stubborn and desperate life-and-death struggle which calls for tenacity, discipline, and a single and inflexible will.[85]

Apart from his evident fear of the durability of small-scale production, Lenin also had moral objections to petty-bourgeois mentality. The history of Bolshevism, he says, was among other things a history of

> ... long years of struggle against petty-bourgeois revolutionism ... Marxist theory has established--and the experience of all European revolutions and revolutionary movements has fully confirmed--that the petty proprietor, the small master (a social type existing on a very extensive and even mass scale in many European countries), who, under capitalism, always suffers oppression and very frequently a most acute and rapid deterioration in his conditions of life, and even ruin, easily goes to revolutionary extremes, but is incapable of perseverance, organisation, discipline and steadfastness. A petty bourgeois driven to frenzy by the horrors of capitalism is a social phenomenon which is ... characteristic of all capitalist countries. The instability of such revolutionism, its barrenness, and its tendency to turn rapidly into submission, apathy, phantasms, and even a frenzied infatuation with one bourgeois fad or another--all this is common knowledge.[86]

They can be allies, but no-one you would want to pin your hopes on. (Echoes of Lenin's mistrust are found in Mao's analysis of the revolutionary potential of the petty bourgeoisie, cited in Chapter 5; they were the proletariat's "closest friends", according to Mao, but they still bore careful watching.) After the revolution, says Lenin:

> Classes still remain, and will remain everywhere for years after the proletariat's conquest of power ... The abolition of classes means, not merely ousting the landowners and the capitalists--that is something we accomplished with comparative ease; it also means abolishing the small commodity producers, and they cannot be ousted, or crushed; we must learn to live with them. They can (and must) be transformed and re-educated only by means of very prolonged, slow, and cautious organisational work. They surround the proletariat on every side with a petty-bourgeois atmosphere, which permeates and corrupts the proletariat, and constantly causes among the proletariat relapses into petty-bourgeois spinelessness, disunity, individualism, and alternating moods of exaltation and dejection. ... The dictatorship of the proletariat means a persistent struggle--bloody and bloodless, violent and peaceful, military and economic, educational and administrative--against the forces and traditions of the old society ... It is a thousand times easier to vanquish the centralised big bourgeoisie than to "vanquish" the millions upon millions of petty proprietors; however, through their ordinary, everyday, imperceptible, elusive and demoralising activities, they produce the very results which the bourgeoisie need and which tend to restore the bourgeoisie."[87]

This, then represents the theoretical legacy which Lenin left to Chinese policymakers and theoreticians trying to hammer out a position on the individual economy: a deep moral mistrust of a class which was also a necessary ally. Even in Lenin's time this ambivalence was reflected in policy--"war communism" in the USSR called for harsh repression of private business activity, but the ensuing New Economic Policy (NEP) sought to appease private entrepreneurs while restricting the worst of their

speculative practices. In the end these tendencies (the rise of the "NEPman") hastened the downfall of the NEP. Both these extremes in policy reflect attitudes toward the petty bourgeoisie found in the statement quoted above.

Chinese interpretations of Lenin's statement have varied, but since they have mainly arisen as justifications for policy, they have tended to conform to the prevailing policy climate toward individual economy. During the more "radical" phases, especially the Cultural Revolution, which was characterized by the preoccupation with class struggle, the passage was cited as support for the necessity of strictly controlling or doing away with individual enterprise. During more "liberal" phases it still crops up as a cautionary note on the dangers of neglecting to adequately control the "blindness" of private enterprise.

Spontaneous Tendencies after the Socialist Transformation

For example, in 1957 after the softening of policies toward individual enterprise following the socialist "high tide", there was great concern over the rapid proliferation of the so-called "spontaneous enterprises". Their existence underlined the fact that even after the socialist transformation had been proclaimed substantially completed, spontaneous capitalist tendencies still appeared to exist among petty producers. By the end of 1957 the political mood of the country had shifted again as the blooming of the "hundred flowers" gave way to anti-rightist rectifications, as well as a new concern with "class struggle" and the

possible re-emergence of capitalism. Despite the economic contributions of the "spontaneous enterprises," the theoretical position on them was beginning to harden.

In December 1957 a key statement on the subject was made by Xu Dixin, then the head of the General Administration of Industry and Commerce.[88] Here Xu cited Lenin's statement as justification for relatively lenient but watchful treatment of the "spontaneous enterprises."

Xu began by outlining the accomplishments of the "high tide" and lauding the subsequent achievements made in consolidating the newly-cooperativized sectors. But where Liu Shaoqi ten months earlier at the Eighth Party Congress had spoken of the victory over the bourgeoisie, Xu's speech largely dealt with the problem of the remnants of the petty bourgeoisie among the peasants and individual handicrafts workers, even after cooperativization:

> In the class relations in our country during the transition period, the bourgeoisie will occupy a major position. Although the petty-bourgeois peasants and handicrafts workers are all workers, the fact that they are also owners gives them something in common with [the bourgeoisie]. Because of this, the struggle between the bourgeoisie and the working class for the right to lead the individual workers will also last for the entire transitional period.

Remnants of bourgeois ideology in industry and commerce, Xu said, were being combatted in the current rectification campaign and the campaign against "bourgeois-rightists": "The anti-rightist struggle is to settle contradictions between ourselves and the enemy, and ordinary rectification is to settle internal contradictions among the people."

In this context Xu brought up the argument about the "spontaneous capitalist tendencies" (zibenzhuyi zifa shili) inherent in the petty commodity economy, which, as Lenin said, "daily, hourly, spontaneously, and on a mass scale" engender capitalism. To combat this tendency, Xu said, required struggle on the political and ideological as well as economic fronts, and this struggle would last for a "relatively long" period of time.

Since the last half of 1956, Xu said, the most concentrated (jizhong) manifestation of spontaneous capitalist tendencies had been the rapid increase in spontaneous industrial enterprises and unlicensed vendors and peddlers, many of which had already changed in nature from individual enterprises to capitalist enterprises. He also noted the recent emergence of itinerant traders and middlemen (zhongjian ren). Speculation was rampant. Many peasants had abandoned farming in favour of more lucrative commercial activities. Some former private entrepreneurs who were now in joint enterprises, and even some employees of state enterprises and members of cooperatives, had "turned back down the capitalist road" either by opening unlicensed enterprises or by moonlighting (becoming "daytime socialists but nighttime capitalists"). Some of these had "hung up socialist signboards but engaged in capitalist operations." These all were manifestations of spontaneous capitalist tendencies, according to Xu.

But he cautioned against indiscriminate eradication of petty private enterprises: "We must have a complete understanding of them, we must understand the dual nature (ermianxing) of petty

commodity production, and also understand the long duration of and necessity for their existence." By its dual (literally, two-faced) nature, Xu meant that certain aspects of petty commodity production were beneficial to socialism, and others were not. The former included their flexibility, responsiveness to consumer demand, convenience, and also their contribution to urban labour absorption. On the negative side, because they were private, their operations were "blind" and speculative, and they exhibited spontaneous capitalist tendencies by engaging in various kinds of illegal trading activities. Especially insidious was that they "seduced" (yinyou) staff of socialist enterprises and members of cooperatives into re-embarking on the capitalist road. Both the positive and negative aspects were to be taken into account in dealing with individual cases of petty commodity producers.

This being the case, why would the petty commodity economy have to persist in China for a "relatively long period of time"? Here Xu cited economic necessity--the large population and "quite backward" methods of agricultural production dictated that the socialist economy "should and can only concentrate most of its energies in developing modern industrial and agricultural production ... It is unavoidable that we will have some people, under the leadership of the state, engaging in production and selling, filling in the gaps that can't be satisfied by the socialist economy."

Xu also pointed out that petty commodity production was a traditional economic form with a long history, and it could not be eradicated at one go, especially since capitalist thinking was still so widespread despite the recent rectification.

For all of these reasons, Xu said, it would be a long time before the proper relationship between the state and petty commodity economy was settled, and the battle against its spontaneous capitalist tendencies would be a long-standing one: "We must overcome the incorrect viewpoint that since socialist transformation has achieved a decisive victory, spontaneous capitalist tendencies are already too insignificant to be a threat (bu zu wei hai), and we must also overcome the incorrect attitude and method of trying to completely stifle petty commodity production in one day."

Instead, Xu advocated subtler methods. Since small-scale industrialists and merchants were basically workers, who because they were also private owners happened to share certain viewpoints with the bourgeoisie, the preferred method to use in "rectifying" them was education, to correct their political stance and reform their capitalist tendencies. In addition, policy measures could be adopted to control unlicensed and underground firms, bringing the petty commodity economy under state control. Of the spontaneous operations that were being permitted to continue, the few that had already become capitalist enterprises were to be supervised carefully and actively subjected to socialist reform. For those that were still genuine

individual enterprises, "we should do a good job of education and management, strictly limit their development toward capitalism, and ... gradually bring them into the cooperative sphere."

This balanced statement implied substantial agreement with the sense of Lenin's pronouncement which gave it theoretical legitimacy. The battle against the bourgeoisie was by no means over, but it could be won by moderate and vigilant means. Very shortly after Xu's speech, however, the terms of the debate changed as the "Great Leap Forward" was launched and the gradualist approach to the socialist transformation was abandoned. For the next two decades (apart from a brief hiatus in the early 1960s), Lenin's dictum was repeatedly used to support continuous class struggle.

Spontaneous Tendencies after the Cultural Revolution

In the mid-1970s, the Shanghai school used Lenin's statement to support their contention that continuous class struggle was necessary even after the socialist transformation. This belief was the basis for the campaign to criticize Lin Biao and Confucius in 1974, and also, beginning in February 1975, a vigorous campaign to study the theory of dictatorship of the proletariat.

To this end People's Daily devoted three and a half pages to quotations from Marx, Engels and Lenin in support of this renewed assertion of dictatorship over the bourgeoisie. It was all translated in Peking Review the following week, with an introduction containing "instructions" from Mao:

> Chairman Mao said: In a word, China is a socialist country. Before liberation she was much the same as capitalism. Even now she practises an eight-grade wage system, distribution to each according to his work and exchange by means of money, which are scarcely different from those in the old society. What is different is that the system of ownership has been changed ... Our country at present practises a commodity system, and the wage system is unequal too ... These can only be restricted under the dictatorship of the proletariat. Thus it would be quite easy for people like Lin Biao to push the capitalist system if they come to power. Therefore, we should read some more Marxist-Leninist works.

The statement continued:

> Chairman Mao also pointed out: Lenin said, "Small production engenders capitalism and the bourgeoisie continuously, daily, hourly, spontaneously, and on a mass scale." This also occurs among a section of the workers and a section of the Party members. Both within the ranks of the proletariat and among the personnel of state organs there are people who follow the bourgeois style of life."[89]

By this time, of course, most of the remnants of private ownership, including the individual economy, had been essentially eliminated. The target was not private ownership itself, but the "force of habit" Lenin was so fearful of which was now, the radicals charged, manifesting itself in institutionalized bureaucratic power. This was seen as one aspect of "bourgeois right", which referred to the continuing presence of inequalities left over from the old capitalist society.[90] The danger of "bourgeois right" was that it would continue far longer than necessary, simply because it favored the interests of those such as Lin Biao, alleged members of the bourgeoisie who had attained positions of power and were using them, it was charged, to undermine socialism and restore capitalism. Lenin's statement on

petty production, it was argued, supported a vigilant stance against any manifestations of "bourgeois right", including remnants of private ownership.

After 1978, the change in policy toward private ownership and petty production (including promotion of the individual economy, as well as other policies such at the household responsibility system in agriculture, which have tended to restore small household production) has necessitated yet another reinterpretation of Lenin's doctrine. It was now charged that under the Gang of Four the statement had been taken out of context and applied to a situation far removed from what Lenin was actually writing about. Thus while Lenin was no doubt correct about the possibility of capitalist restoration in the context of the Soviet Union in 1920, that did not mean his words applied for China today.

Moreover, the concept of "spontaneous capitalist tendencies," it was charged, became debased during the cultural revolution period. Says one writer,

> No one dared to become outstanding. ... So long as we mentioned opening up production channels and enriching our daily life, the label of "spontaneous capitalist tendencies" would be rested on us. ... Among miscarriages of justice, trumped-up cases and erroneous decisions regarding basic-level cadres ... in the countryside, those who were punished and persecuted because of "spontaneous capitalist tendencies" accounted for a considerable proportion. ... The concept of "spontaneous capitalist tendencies" should be cleared.[91]

What, then, was the new line on spontaneous capitalist tendencies for the post-Mao period? The most important issue, of course, was whether or not the restoration of the individual economy could lead to a restoration of capitalism. Much of the

post-1978 literature on the individual economy was devoted to this question; the general consensus was an equivocal "No, it can't happen, and even if it does happen, we as a socialist country have ways of making sure it won't." This argument will be fleshed out in the following section.

On Individual Economy and Capitalist Restoration

Chinese theorists use the term liangji fenhua (literally, dividing into two poles, or polarization) to describe the process by which petty production, under certain circumstances, can give rise to capitalism. The model is that some petty producers, given certain advantages like good land, good location, superior skills, hard-working relatives, or (probably most important) access to capital, are able to surpass their competitors and build up their business to the point where they break out of simple reproduction and into a spiral of accumulation--the more they earn, the more they reinvest, the more they reinvest, the more they prosper. At the same time, they edge less-favored competitors out of the market.

At some point the owners themselves can no longer handle the volume of business, or the business has grown so prosperous that they can begin to think about taking it easy, and so they begin to hire labour. The defining characteristics of petty production, it will be remembered, are ownership of the means of production by the producers, and labour by the producers themselves, for themselves (usually as a household). When the latter feature no longer exists ("when labour becomes a

commodity"), they can no longer be considered petty producers. Usually the surplus labour they purchase (or "exploit") is that of their less-favored competitors--the breakthrough of some petty producers is won at the expense of many others, who gradually see their livelihood as independent operators being eroded, and are left with no choice but to sell their surplus labour in order to make ends meet. In this way, the losers become "candidates for the proletariat."

Thus even if it is accepted that petty commodity production is in itself not capitalist, it still has a historical record of incubating the conditions for capitalism to develop. In precapitalist and capitalist societies, the argument goes, the process of liangji fenhua allows a small minority of enterprises to make the jump from simple reproduction to capitalist accumulation, while the rest become progressively more impoverished and exploited. But this is not a product of their own capitalist nature. Where this has happened, it is argued, it is the product of specific historical circumstances. One example is the transition from feudalism to capitalism:

> During late feudalism, at the time when capitalism was developing, it was a fairly common tendency for individual operators to be transformed into capitalists. Normally, petty producers divided under competition, some became capitalists who exploited hired labour, others were reduced to workers who sold their labour; some small merchants, from controlling the operations of petty producers, became contractors; in reality this turned the petty producers into hired labour. In Western Europe, some countries took just this route to becoming capitalist societies. In these countries a fairly large number of petty producers and small vendors became capitalists, but there was also a period of as long as 250 years of workshop handicraft production; as the social forces of production developed, they gradually changed to advanced capitalist countries.[92]

Within capitalism, obviously, the conditions favour the continuation of this process. The same is true in any formation where capitalism plays a significant role. This, it is argued, was the problem Lenin was writing about in 1920. A 1981 article by Xue Mou in the theoretical journal Hongqi (Red Flag), for example, argued that during the period of war communism in the Soviet Union, it was apparent that the Bolsheviks still had not established their hegemony over the Russian peasantry: "The national economy was dominated by the ubiquitous petty-agricultural economy, and still maintained its connection with the capitalist sector."[93] Thus while the new Bolshevik state was appropriating "surplus" grain, petty producers in the countryside were able to sell grain on the private market at grossly inflated prices. In China before the socialist transformation, Xue argued, the same conditions applied: "... not only did the individual economy comprise a fairly large share of the national economy, it also maintained traditional linkages with capitalist industry and commerce in production, supply, and marketing. It was inevitable that this would produce liangji fenhua."[94]

The socialist transformation, however, created a completely new situation: "The share of individual economy within the national economy became much smaller, and no longer could it maintain its linkages with capitalist industry and commerce."[95] Under these new circumstances, the peasants and individual operators had become "socialist collective workers," and thus the external conditions for liangji fenhua no longer existed. Xue does not deny that even under these circumstances, the impulse

toward it may still exist; this kind of ideological change takes much longer to accomplish: "We cannot deny that among some peasants there still exist backward thinking and habits ... This requires long-term ideological education, but if we think that their backward thinking necessarily gives rise to capitalism and a capitalist class, this is clearly absurd."[96]

Any suggestion that this could happen, that capitalism could emerge even in a situation where the socialist economy is the acknowledged dominant element, was after 1978 denounced as a remnant of "leftist" ideological influences:

> Since the Third Plenum of the 11th Central Committee, our party has basically rectified the dominant leftist ideology. But because the period of leftist errors was long, its sphere was wide, and its influence deep, in the minds of some comrades leftist influences have still not been eradicated. For example, some comrades become uneasy when they hear of some workers becoming rich first, they are afraid of liangji fenhua. As soon as they see the first signs of restoration and development of urban and rural individual economy, they are horrified; they connect all of today's individual economy with capitalism, they don't dare support it, some even do everything they can to exclude and squeeze it out.[97]

Some authors, however, were not so quick to condemn this ambivalence toward the restoration of the individual economy. Even under socialism, they argued, individual economy was still a form of commodity production based on market exchange, and thus subject to "the law of value." This is seen both as the source of its vitality, and what is usually called its "blindness." Because the individual entrepreneur's standard of living is directly related to his or her ability to maximize income while

minimizing costs, their behaviour is more likely to be subject to the laws of the market than to other (i.e. social or planning) considerations:

> This is wherein the life-force of the individual economy lies. This is why, after being chopped off several times as "the tail of capitalism", it still continues to flourish, and still maintains its competitiveness with other economic sectors. At the same time we certainly cannot deny that, since the individual economy is [a form of] petty-commodity economy, the contradiction between private labour and social labour still exists, and is necessarily manifested in the contradiction between commodity value and use value. Under the spontaneous conditioning of the law of value, it inevitably carries with it a certain blindness and spontaneous tendencies. These characteristics have not changed just because it is situated in the socialist stage, and is dependent on the public-ownership economy.[98]

What has changed, however, is the ability of the dominant socialist economy to control those tendencies. In the post-1978 theoretical literature supporting the promotion of the individual economy, the most common position taken on this issue is, quite simply, that in an economy already dominated by socialist relations of production, the spontaneous generation of capitalism should not occur; the guarantee that it will not occur lies in the subordination of the individual sector to the dominant socialist economy:

> In our society, after the public-ownership economy achieved dominance, the route by which individual economy developed into capitalism was eliminated. ... This helped to block its spontaneous capitalist tendencies. So whether from the point of view of theory or our country's actual reality, individual economy cannot develop into capitalism. This is completely a result of the influence of the public-ownership economy. If this were not so, if the public-ownership economy were not predominant, or if the linkages between the individual economy and the public-ownership economy were so weakened as to basically disappear, then the individual economy could blindly develop, and a capitalist sector would be bound to emerge.[99]

With the new and more effective subordination of the individual economy to the public ownership economy, it was argued, although some of the better-favoured individual firms could prosper more quickly than others (and this was seen as right and desirable), even the most advantaged could not develop into capitalist enterprises: "Aside from the fact that their own economic power is low, even more important, the dominant socialist economy, using its own economic power, can limit and control [the individual economy] in various ways ... to ensure that [individual entrepreneurs] cannot become capitalists ...[100]

This line of argument is ultimately unconvincing.[101] The following section will conclude by indicating the problematic areas where major questions were ignored or avoided, and some of the reasons why this seems to be the case.

Conclusion

In the early 1980s, the literature supporting the rehabilitation of the individual economy argued that without the presence of a dominating capitalist economy, petty producers could not become capitalists; liangji fenhua could not take place. The establishment of the public-ownership economy as the dominant form, it was argued, "eliminated the expropriation and annexation of individual economy by large private owners,and also blocked the road by which the individual economy develops from small private ownership to large private ownership, from individual labour to exploitation."[102] The argument offered to support this assertion was that the socialist economy, backed by

the socialist state, can use economic and administrative levers to limit the growth of individual firms and thus forestall the possibility of liangji fenhua, and at the same time can use ideological means (education and propaganda) to reinforce the message.

But this research has uncovered no discussion which says that if those economic, administrative, and ideological levers were not used, liangji fenhua could not take place within an economy dominated by socialist relations of production. There was no compelling theoretical argument supplied to explain why this could not happen--nothing was said about the "nature of the individual economy" itself which showed what would forestall it. And indeed, a look at the actual situation reveals that in fact it does take place; despite the admittedly powerful linkages between the petty-commodity economy and the state-run or socialist sector, the petty commodity economy still functions as if it were operating within a capitalist economy, giving birth to businesses that look suspiciously capitalist in their modes of operation. Just as this issue was brought up and then evaded by Xu Dixin in the 1957 speech cited above, it was still being evaded by theoreticians twenty-five years later.

Such arguments ignored the apparently considerable economic power of those individual entrepreneurs (admittedly a minority) who had become most successful. Specifically they ignored the relations between these more prosperous individual entrepreneurs and their less successful colleagues. Shazi the melon seed vendor, for example, apparently got rich not so much by

"exploitation" of hired labour as by contracting with suppliers for favorable terms and guaranteed supplies, and with less-enterprising (and perhaps more scrupulous) melon seed vendors to market his product. Are these relations capitalist relations? Is "capitalist exploitation" limited to the use of hired labour, or can it extend to other less direct methods of appropriating the labour of others for one's own profit? Certainly these relations gave Shazi economic power over other individual entrepreneurs, independent of the amount of surplus labour he was directly "exploiting." There are obvious parallels between this situation and the kind of situation described above as having given rise to capitalist firms in Western Europe during late feudalism.

Theoretically there appears to be no inherent reason why this process should not continue within a social formation dominated by socialist ownership and production relations, unless it is not allowed to take place. But the constraints are not inherent ones, they are administratively imposed. It is clear that within the individual economy in China during the period under study, under the dominance of the socialist economy, this process was taking place, in a minority of enterprises. When it did, the firms that made the break became to all intents and purposes, capitalist firms--albeit capitalist firms operating under stringent government controls.

This is not to say that the "spontaneous capitalist tendencies" of the individual economy cannot be controlled in the

socialist state, or that the individual economy should be policed out of existence. The point is that this has become a question of policy, and not of theory.

A real understanding of this phenomenon would require opening up a theoretical Pandora's box which was firmly closed in 1978, when class struggle was offically declared to be a thing of the past. As Richard Kraus has pointed out, "This movement away from Mao's understanding of socialism as a system which generates its own (sometimes fiercely antagonistic) class contradictions has given rise to a variety of other theoretical innovations."[103] Precisely what is needed, and what is missing from the theoretical writing on the individual economy during the period under study, is an analysis of the individual economy based on class. The real problem, which these theorists shy away from, is not so much whether the individual economy spawns capitalist-type enterprises (which can after all be controlled by all the mechanisms of subordination), as whether, as Lenin said, petty production left to its own devices is fertile ground for the emergence (or resurgence) of a bourgeois class, with its own class interests that may or may not correspond to those of the Party (or what the Party defines as the interests of the country as a whole.)

This concern, clearly, was what underlay the preoccupation with "spontaneous capitalist tendencies", although it was rarely articulated as such. (In this connection it is surely significant that in the post-1978 literature on the individual economy, the term "petty bourgeoisie" was rarely if ever seen.)

The reason for this was largely political--in the new ideological climate of the late 1970s and early 1980s, class analysis was very much out of favour. The new leadership rejected "egalitarianism" in favor of policies which would create large disparities in material wealth. It also sought to appease such groups as former capitalists and intellectuals who had been attacked during the period of Mao's leadership, and especially during the cultural revolution decade, under the rubric of "class struggle." At the same time, the whole stratum of petty proprietors in the city and the countryside was being resurrected.

However, as Yu Guangyuan said, anything that promoted economic development would eventually lead to socialism. The whole thrust of the new period, therefore, was to downplay class conflict and promote harmony in the interests of economic modernization. At the same time, however, the policies designed to promote modernization were also promoting the concentration of wealth in the hands of a relative minority. In such a climate, thorough-going class analysis was clearly inappropriate. Far safer were bland assurances that "under socialism" petty production simply will not be allowed to engender capitalism and a capitalist class. But as the foregoing chapters have demonstrated, the deep distrust of petty commodity producers persisted, creating serious gaps between theory (which reflected central policy toward the individual sector) and practice.

A related gap is one that Zhang Chunqiao pointed out in 1975. As long as relations of production are defined solely in terms of ownership, there is really no place in theoretical discussions to examine the new kinds of class relations that are emerging as a result of the post-1978 policy reforms. From the point of view of ownership, individual economy is quite simple--a sector consisting of small, autonomous privately-owned enterprises, easily dominated by the public-ownership economy. From the point of view of human relationships in the course of production, and from the point of view of distribution, it is much more complex. Here the issues of inequity, of relative wealth and power, of competing interests of various groups in society, stand out much more sharply. Without a class-based analysis of the individual economy, one which takes into account aspects of relations of production other than ownership, there is really no way out of the theoretical cul-de-sac which argues that the individual economy under socialism cannot engender a capitalist class, and in any case even if it does, it can and will be stopped.

Again, it should be made clear that this is not an argument for some nostalgic return to theories of class struggle (and certainly not to their real-life consequences). However it does seem clear that, in their need to provide a theoretical justification for a policy which was clearly beneficial in terms of economic growth and the quality of people's lives, Chinese theoreticians have (probably deliberately) glossed over some of the obvious implications of their own arguments. In the

ideological climate of China in the early 1980s, with economic theory being marshalled to justify policies which were deemed necessary on other grounds, this was probably an inevitable strategy. But as theory it leaves many questions unanswered.

Notes

1. It should be noted that the discussion in this chapter is based on materials from the 1978-84 period; it refers to the "current situation" as of about mid-1985.

2. According to Nove, in The Economics of Feasible Socialism (London: George Allen & Unwin, 1983), p. 10, what little Marx did say on the subject of the economics of socialism was "either irrelevant or directly misleading".

3. Karl Marx, "Preface to A Contribution to the Critique of Political Economy," in Karl Marx and Frederick Engels: Selected Works (London: Lawrence & Wishart, 1968), pp. 182-3 (emphasis added).

4. Zhongguo Xian Jieduan Geti Jingji Yanjiu (Research on China's Individual Economy at the Present Stage), special issue of Jingji Wenti Tansuo (Exploration of Economic Problems), no. 15 (Supplement No. 1) (March 1982), p. 18; hereafter cited as JWT. This book-length compendium was written by a group of scholars to summarize and expand upon discussions on the individual economy held at a theoretical conference on ownership in Chengdu in 1981, and represents the most authorative collection on the subject published in the early 1980s.

5. For the answers, see Chapter 5 above.

6. For one of the many interpretations of Mao's "Sinification" of Marxism, see Nick Knight, "Mao Zedong and the 'Sinification of Marxism'," in Marxism in Asia, Colin Mackerras and Nigh Knight, eds (London: Croom Helm, 1985), pp. 62-89.

7. See Peer Moller Christensen, "The Shanghai School and Its Rejection," in The Chinese Economic Reforms, pp. 74-90, eds. Stephan Feuchtwang and Athar Hussain (London: Croom Helm, 1983), p. 76; and the introduction by James Peck to Mao Zedong, A Critique of Soviet Economics, trans. Moss Roberts (New York: Monthly Review Press, 1977), pp. 13-14.

8. Mao Zedong, "Reading Notes on the Soviet Text Political Economy," in A Critique of Soviet Economics, p. 51. It should be noted that this was written after the failures of the Great Leap which give lie to the harmonious picture Mao paints.

9. Ibid., pp. 66, 60-61.

10. As quoted in Michael Sullivan, "The Ideology of the Chinese Communist Party Since the Third Plenum," in Chinese Marxism in Flux 1978-84, ed. Bill Brugger (London: Croom Helm, 1985), pp. 67-97. Mao himself apparently did not dissociate

himself from this view at the time, although he did repudiate it only a few months later with the publication of the revised version of his "contradictions" speech. See Chapter 3 above.

11. See Cyril Chihren Lin, "The Reinstatement of Economics in China Today," The China Quarterly, no. 85 (March 1981), p. 37, on the three major elements of Cultural Revolution economics: "First, there is the basic ideological premise that under conditions of Chinese socialism, changes in production relations rather than changes in the productive forces may be the motive force of development."

12. See Christensen, "The Shanghai School."

13. Christensen, p. 80; see also Richard Curt Kraus, Class Conflict in Chinese Socialism (New York: Columbia University Press, 1981), pp. 152-64.

14. For a detailed account of the theoretical critique, see Christensen, pp. 82-8.

15. JWT, p. 18.

16. Su Shaozhi and Feng Lanrui, "Wuchan Jieji Qude Zhengquan Hou de Shehui Fazhan Jieduan Wenti" (The Problem of the Stages of Social Development After the Proletariat Has Seized Power), Jingji Yanjiu (Economic Research), no. 5 (1979), p. 18.

17. JWT, p. 18.

18. Su and Feng, p. 18.

19. Ibid.

20. See Christensen, "The Shanghai School and its Rejection", p. 89: "Although this view [of Su and Feng] was criticized in later articles ... it seems to have been accepted as the proper classification of the Chinese socialist system."

21. Xue Muqiao, China's Socialist Economy (Revised Edition) (Beijing: Foreign Languages Press, 1986), p. 14.

22. Ibid., p. 15.

23. Su & Feng, p. 19.

24. Ibid.

25. See Mao, "Reading Notes", p. 67.

26. Chang Chun-chiao (Zhang Chunqiao), "On Exercising All-Round Dictatorship over the Bourgeoisie," Peking Review, no. 14 (4 April 1975), p. 7.

27. This task required the active involvement of economists in analyzing the existing mix of production relations and revising economic theory to accommodate it. At the end of the 1970s and the beginning of the 80s, there was a renaissance of academic debate about economic problems and economic theory, much of it finding its way into newly-revived journals like Jingji Yanjiu, other newly-established journals, and even into the daily newspapers. It was carried on in the context of a renovated economic research apparatus. See Lin, "The Reinstatement of Economics", pp. 39-41.

28. The conference was sponsored jointly by the Economics Research Institute (Jingji Yanjiusuo) of the Chinese Academy of Social Sciences, and the Sichuan provincial Social Sciences Research Institute. The 178 participants represented the Party Central Committee, the State Council, and 27 provinces, municipalities, and autonomous regions. They included economic researchers, educators, and "practical workers" in economics, as well as press, publishing, and propaganda units. See JWT, p. 92.

29. Three reports will be used extensively: "Woguo Xian Jieduan Shengchan Ziliao Suoyouzhi Jiegou Wenti Taolunhui Taolun de Qingkuang he Tichu de Wenti" (Circumstances of Discussion and Problems Raised at the Conference on Problems of Structure of Ownership of the Means of Production at Our Country's Present Stage), Jingji Yanjiu, no. 6 (1981), pp. 34-37, 80 (Translated in CEA, 6 August 1981, pp. 17-27); Ma Changshan, "Zongjie 'Zuo' de Jiaoxun, Tiaozheng Suoyouzhi Jiegou--Woguo Xian Jieduan Shengchan Ziliao Suoyouzhi Jiegou Wenti Taolunhui Guandian Zongshu" (Summing Up 'Left' Lessons, Readjust the Structure of Ownership--A Summary of Viewpoints at the Conference on Problems of Structure of Ownership of the Means of Production at our Country's Present Stage), Jingjixue Dongtai (Trends in Economics), no. 6 (1981), pp. 8-11; Hu Xiaogang and Han Shuying, eds., Zhongguo Shehuizhuyi Jingji Wenti Taolun Gangyao (Outline of Discussions on Problems of China's Socialist Economy) (Changchun: Jilin Renmin Chubanshe, 1983), Chapter 2: "Shengchan Ziliao Suoyouzhi" (Ownership of the Means of Production.

30. "Woguo Xian Jieduan," p. 34.

31. Here the discussion will be confined to the issue of ownership structure, and not even attempt to outline the theoretical issues relating to ownership itself, problems of definition, etc. A good source on this is Gao Qun, Shehuizhuyi Shehui de Shengchan Ziliao Suoyouzhi (Ownership of the Means of Production in Socialist Society) (Harbin: Heilongjiang Renmin Chubanshe, 1984); a well-documented review article is Huang Yun, "Shengchan Tiaojian Suoyouzhi" (Ownership of the Factors of Production), in Jingjixue Dongtai Editorial Group, 1981 Jingjixue Dongtai (Trends in Economics 1981) (Beijing: Renmin Chubanshe, 1982) pp. 25-38. Relevant journal articles include: Wang Dongsheng and Zhang Mao, "Shilun Shehuizhuyi Shengchan Tiaojian de Suoyouzhi" (A Discussion of Ownership of Socialist Factors of

Production), Xuexi yu Tansuo (Study and Exploration) no. 6 (1980), pp. 11-18; Zhan Biao, "Ping 'Shengchan Tiaojian Suoyoulun' Ji Qita" (Review of "The Theory of Ownership of the Factors of Production" and Others), Xuexi yu Tansuo (Study and Exploration), no. 2 (1981), pp. 61-64; Xiong Yingwu, "Shengchan-li, Laodong Fangshi yu Shengchan Fangshi" (Productive Forces, Mode of Labour and Mode of Production), Jingji Kexue (Economic Science), no.2 (1983), pp. 1- 8.

32. Ma Changshan, p. 8.

33. Ibid.

34. "Woguo Xian Jieduan", p. 35.

35. Ma Changshan, pp. 8-9. Here they are criticizing Mao himself; in the "Reading Notes" (p. 50) he says, "Actually, the transition is less difficult the more backward an economy is, for the poorer they are the more the people want revolution ... Workers [in the West] have been deeply influenced by the bourgeoisie. ... Countries of the East ... had been backward and poor, but now not only have their socialist systems moved well ahead of those of the West, but even the rate of development of their productive forces far outstrips that of the West. Again ... the backward overtake the advanced ..."

36. "Woguo Xian Jieduan,", p. 35.

37. Ibid., p. 36.

38. G.A. Cohen, Karl Marx's Theory of History: A Defence (Oxford: Clarendon Press, 1978), p. 29. This is an avowedly "fundamentalist" approach. For two different critiques of this argument, see Jon Elster, "Cohen on Marx's Theory of History," Political Studies, 28 (March 1980); and David-Hillel Ruben, "Review Article: Cohen, Marx and the Primacy Thesis," British Journal of Political Science 11 (April 1981).

39. Karl Marx's Theory of History, pp. 278-9.

40. G.A. Cohen, "Forces and Relations of Production", in Marx: A Hundred Years On, ed. Betty Matthews (London: Lawrence & Wishart, 1983), p. 117.

41. Ibid, p. 124. Here I will not address the issue of how productive forces can "select" anything at all, although both Elster and Ruben do deal with the problems of functional explanation in their reviews.

42. See Chapter 3 above. As Schram points out about this seemingly esoteric debate, "Although it might seem that, objectively speaking, the economy is more important than philosophical issues, it was in fact the debate about the 'practice criterion' which had the greater immediate political

impact, because it directly affected the claims of rival groups in the leadership to legitimacy. ... Without [this debate and the one over 'objective economic laws'], the fundamental change, not only in the balances of forces within the top leadership, but in the Party's line and in the whole intellectual climate prevailing in China, would not have been possible. See Stuart Schram, "'Economics in Command?' Ideology and Policy Since the Third Plenum, 1978-84," The China Quarterly, no. 99 (September 1984), p. 419.

43. Wang Shuwen, "Shengchanli he Shengchan Guanxi" (Forces of Production and Relations of Production), in 1981 Jingjixue Dongtai,p. 21.

44. Yu's article, "An Opinion on the Theoretical Problem of Socialist Ownership" appeared in the internal-circulation magazine Jingjixue Dongtai (Trends in Economics) in July 1980, the same month as a signed article by him was published in Renmin Ribao. Several months later, a translated version of the Jingjixue Dongtai article, with no substantial changes, was published for foreign consumption in Beijing Review. See Yu Guangyuan, "Dui Shehuizhuyi Suoyouzhi Lilun Wenti de Kanfa" (An Opinion on the Theoretical Problem of Socialist Ownership), Jingjixue Dongtai (Trends in Economics), no. 7 (1980); "Duidai Shehuizhuyi Suoyouzhi de Jiben Taidu" (The Basic Attitude on the Handling of Socialist Ownership), Renmin Ribao, 7 July 1980; and "The Basic Approach to Socialist Ownership," Beijing Review, no. 49 (December 8, 1980).

45. Yu, "Dui Shehuizhuyi", p. 10. The rest of this discussion quotes from the same article, pp. 10-11.

46. Su Dongbin, "Hengliang Shehuizhuyi Suoyouzhi Hao Huai de Biaojun Daodi Shi Shenme" (What is the Ultimate Criterion for Judging Whether Socialist Ownership is Good or Bad), Jingji Kexue, no. 2 (1981); quoted in Hu and Han, Zhongguo Shehuizhuyi Jingji Wenti Taolun Gangyao, p. 76.

47. Yu Guangyuan, however, was reportedly one of the victims in the campaign against bourgeois liberalization of early 1987.

48. "Woguo Xian Jieduan", p. 36.

49. Ibid.

50. Ibid.

51. Ma Changshan, p. 9.

52. "Woguo Xian Jieduan", p. 36.

53. Ma Changshan, p. 9.

54. Huang Yun, "Shengchan Tiaojian Suoyouzhi," p. 27.

55. Gao Qun, pp. 129-130.

56. The key source for the majority view is the compendium on the individual economy which was published as a special issue of the journal Jingji Wenti Tansuo (hereafter, JWT) in 1982. Other sources include Xu Yulong and Gao Shiben, "Chengzhen Geti Jingji de Xingzhi yu Zuoyong" (Nature and Role of Urban Individual Economy), Jingji Kexue, no. 4 (1980); Wang Shouchuan, "Qian Tan Geti Shangye de Shehuizhuyi Xingzhi" (An Elementary Discussion of the Socialist Nature of Individual Commerce), Shangye Yanjiu (Commercial Research), no. 2 (1983); Wang Maoxiang, "Lun Woguo Xian Jieduan Chengzhen Geti Jingji" (On Urban Individual Economy in Our Country at the Present Stage), Jingji Kexue (Economic Science), No. 1, 1981; Jianshe You Zhongguo Tese de Shehuizhuyi (Build Socialism With Chinese Features), Beijing: Renmin Chubanshe, 1984; Xu Shusheng, "Several Questions Concerning the Research on the Individual Sector of the Economy," Jingji Guanli (Economic Management), no. 11 (1981), translated in CEA, 20 January 1982; Zhou Jinghua, "Discussions About Individual Economy," Beijing Review, no. 45 (10 November 1980).

57. JWT, p. 31.

58. Ibid., p. 35.

59. Gao Qun, p. 130.

60. JWT, p. 31.

61. Jingji Wenti Tansuo, p. 36.

62. Gao Qun, pp. 131-2.

63. Xu Yulong and Gao Shiben, p. 24.

64. JWT, p. 36.

65. Xu Yulong and Gao Shiben, p. 24.

66. Xu Shusheng, p. 3.

67. Wang Shouchuan, pp. 19-20.

68. Ibid., p. 20.

69. Ibid., p. 21.

70. Ibid., p. 22.

71. Zang Guangyu, "Geti Jingji Bu Shi Shehuizhuyi Xingzhi De" (Individual Economy Is Not Socialist in Nature), Fendou (Struggle), no. 12 (1980), cited in Hu and Han, p. 105.

72. JWT, p. 38.

73. JWT, p. 34.

74. Ibid., p. 36.

75. Ibid., p. 52.

76. Ibid., p. 34.

77. Ibid., p. 52-3.

78. Ibid., p. 52.

79. JWT, p. 56.

80. Ibid., p. 53.

81. Ibid., p. 54.

82. Ibid., p. 55.

83. See Lin, "The Reinstatement of Economics," p. 6. As summarized by Stephan Feuchtwang and Athar Hussain (The Chinese Economic Reforms [London: Croom Helm, 1983], p. 5), the area of diagnostic argument is delineated by two concerns: "First, what are the characteristics which identify an economy as socialist and not as capitalist? Second, do the changes and developments in the economy resuscitate what is meant to have been superseded, that is do they recreate a capitalist economy in a different guise?"

84. V. I. Lenin, "'Left-wing' Communism -- An Infantile Disorder," in The Lenin Anthology, ed. Robert C. Tucker (New York: W.W. Norton, 1975), p. 553.

85. Ibid., pp. 552-3 (emphasis in the original).

86. Ibid., p. 559.

87. Lenin, pp. 569-570

88. See Da Gong Bao (Beijing), 24 December 1957.

89. "Marx, Engels and Lenin on the Dictatorship of the Proletariat," Peking Review, no. 9 (28 February 1975), p. 5. See also Chang Chun-chiao [Zhang Chunqiao], "On Exercising All-round Dictatorship over the Bourgeoisie," Peking Review, no. 14 (4 April 1975), pp. 5-11. For a detailed discussion of the issues involved in this campaign, see Kraus, Class Conflict, pp. 143-164.

90. Kraus, Class Conflict, p. 145.

91. "Renmin Ribao Comments on Criticism of Capitalist Tendencies," Renmin Ribao, 16 May 1980, translated in FBIS, 22 May 1980, p. L15.

92. Jianshe You Zhongguo Tese de Shehuizhuyi, pp. 76-77.

93. Xue Mou, "Zenyang Zhengque Renshi Shehuizhuyi Gaizao Jiben Wancheng Yihou de Xiao Shengchan?" (How to Correctly Understand Petty Production After the Socialist Transformation is Basically Completed?), Hongqi (Red Flag), no. 21 (1981), p. 41.

94. Ibid, p. 42. Another source argues, however, that "even in old China, these historical conditions for individual economy to develop into capitalist economy did not exist, so the number of individual operators who became capitalists was quite small." See Jianshe You Zhongguo Tese de Shehuizhuyi, p. 77.

95. Xue Mou, p. 42.

96. Ibid.

97. Ibid., p. 43.

98. JWT, p. 35.

99. Ibid., p. 54.

100. Ibid.

101. It also smacks of what Nove, in The Economics of Feasible Socialism, (p. 29) calls "evasion-slogans." It should be noted, however, that by mid-1987, Chinese theorists had begun to discuss the emergence of what was being called the "private sector" (siren jingji), which largely consisted of individual firms that had made the jump to capitalist forms of enterprise. It will be most interesting to watch the direction of these discussions.

102. JWT, p. 55.

103. See Kraus, Class Conflict in Chinese Socialism, p. 174.

CHAPTER VIII

CONCLUSION

Conceptual Introduction

The discussion of the urban individual economy in China must now be placed in a larger conceptual framework. Conveniently the framework has been provided by the main slogan for the post-Mao era of economic reform, "jianshi you zhongguo tese de shehuizhuyi"--building socialism with Chinese characteristics. In other words, the urban individual economy must be seen in the context of a developing, socialist, Chinese economy.

This study is placed at the point where three themes converge: a) the study of the urban small-scale and what is often called "informal" sector in the developing economies, b) the study of the urban private sector in socialist economies, and c) the study of urban small-scale enterprise in the Chinese economic system, past and present. So far it has concentrated on the third theme, the experience of the urban individual sector in the evolution of China's economic system over the thirty-five years after the establishment of the People's Republic of China, and particularly during the years of transition to the post-Mao era. This final chapter will bring these themes together, in an effort to explore the implications of past experience for the future prospects of China's individual economy, in the course of economic development in the new stage.

Although on the surface China differs in significant ways from other developing countries of the Third World, and also from the socialist countries in Eastern Europe, it also has many commonalities with both. One of the features they all share is a significant and flourishing sector of urban small-scale individually operated enterprises, especially in commerce and services. In the Third World, this type of enterprise has often been described as "informal", to distinguish it from the growing "formal" sector consisting of modern capitalist enterprises. In the socialist economies, a similar sector exists, although as will be seen below in most cases it has been severely circumscribed, and in some cases has been actively suppressed. This has not eliminated the sector, however, it has merely driven most of it underground, while its legal activities have taken on a particular character as a result of policy constraints. In both cases, the sector has been shaped and conditioned by its relationship with the dominant sector of the economy; in the case of developing Third World countries by the capitalist sector and the state that for the most part serves its interests, and in the socialist countries by the socialist sector and the state that serves its interests. In both cases too, the sector persists because it fills certain needs shaped by the nature of the dominant economy. But at the same time, it represents ways of doing business--indeed, ways of life--that are contrary to the dominant direction of development. The result is a deep-seated

ambivalence toward the continuing existence of the small-scale sector. As we have seen, the situation of the individual economy is roughly similar.

This chapter goes on to discuss in more detail the experience of small-scale individually-operated urban economic activity in other developing economies of the Third World, and in some of the socialist economies of Eastern Europe. The discussion will then return to the place where these experiences overlap, and attempt to draw some conclusions about the position of the individual economy in the context of China as both a developing and a socialist country. Three major themes will underly this discussion. The first is persistence--the ability of the small-scale sector to survive and even to flourish in the seemingly hostile environments of both socialist and developing economies. The second theme is subordination--in the first instance the subordination of the small-scale and in some sense traditional economic sector to the modern capitalist or state-capitalist sector in the course of economic development; in the second the subordination of the small-scale urban private sector in socialist systems; and in the third instance the subordination of the individual sector in China's developing socialist economy. The third theme is ambivalence or insecurity--the effects of the ambiguous status of what are seen as "traditional" economic forms in modernizing economies, quasi-capitalist forms in socialist economies, and both "traditional" and quasi-capitalist forms in the Chinese economy. The chapter (and

this thesis) will end on a speculative note; within the framework imposed by "socialism with Chinese features", what does the future hold for the urban individual economy in China?

Small-Scale Private Enterprise in Socialist Economies

Xue Muqiao, China's senior economist (at the time director of the Economic Research Institute of the State Planning Commission) and a longtime advocate of economic reform, was asked by an American magazine in 1981 what the ultimate goal of China's current reforms was, and what role private capital would play in it. He said that while on the whole private capital would have a small impact on the state economy,

> Even so, there will be some loopholes ... These loopholes, say, small-scale handicrafts, peddlers, and service trades, can be filled in by private operators as a supplement to the state-owned economy. ... Such private enterprises have only limited scope for development since the state-owned economy is in a predominant position. The socialist society permits some small commodity economy and even some remnants of capitalism. There has never been a pure society in history ... In the capitalist society, there are also large numbers of small producers. When he wrote Das Kapital, Marx thought that the small producers would be totally wiped out at last, leaving the bourgeoisie and the proletariat in the capitalist society alone. But today the greater part of the farms in the US are run by individual families and there are many more small stores and small restaurants in the US than in China. Still, nobody will insist that the US is not a capitalist country. Why is it necessary for a socialist country to be pure?[1]

Xue's unstated answer, of course, is that purity is not necessary, nor is it necessarily desirable. Many other socialist countries have recently come to the same conclusion--apparently even the Soviet Union.

The small-scale private sector (either legal or, for the most part, illegal) is a common feature in virtually every socialist economy. Here, where the "formal" sector is not the capitalist sector but the state-owned or socialized economy, the small-scale private sector also provides goods and services which the socialized economy cannot provide or finds it inconvenient or unprofitable to provide. This is usually attributed to the "rigidities" of centrally-planned systems, where the planning and allocation process simply cannot respond in an effective or timely way to consumer demand. In large part this is the product of ideological preferences of policymakers to favour production over consumption or distribution and industry over consumer goods. To some extent these preferences are part of the legacy of Stalinist economic policies which were highly influential at the time when most socialist countries were being established, and which for many reasons have proved difficult to eliminate even when the necessity for reform has been recognized.

Even more than for developing countries, a major problem for this sector in socialist countries has been the issue of legality. The fact that the sector has historically been outlawed or at least has functioned on very shaky legal ground, has been a major influence in the way the sector has developed, the practices and strategies that private entrepreneurs have adopted. As well, their status is insecure because as private entrepreneurs in a socialist system dominated at least officially by socialist values, even when operating legally they are likely

to be mistrusted by the powers that be, and often by society as a whole. This fact more than any other seems to influence the way these entrepreneurs conduct their business activities.

The following sections provide an overview of the experience of small-scale private enterprise in several of the Eastern European socialist countries for which relevant information is available.[2] This is not intended to be a comprehensive survey; the purpose is simply to set the Chinese experience in a comparative context in order to bring out elements which appear to be common to all socialist economies.[3]

Although for most of its history (with the conspicuous exception of the New Economic Policy period of the 1920s), the Soviet Union has suppressed private trade, at least four of the socialist states of Eastern Europe have permitted a relatively large degree of private entrepreneurial activity to exist legally alongside the socialist sector.[4] These are Hungary, Yugoslavia, Poland, and the German Democratic Republic.

Hungary

Through the early 1980s private economic activity in Hungary was concentrated in the agricultural sector. Economic reforms in the mid-1960s permitted a degree of private non-agricultural economic activity, but concurrent growth and concentration of employment in the state and cooperative sectors (with the growth of very large enterprises, many employing more than a thousand employees) reduced the share of employment in private enterprises from 23.5 percent in 1960 to 4.2 percent in

1970, and 3.6 percent in 1980, producing what the Hungarian economist Marton Tardos has called "a curious duality, a strong polarization" of the Hungarian economy.[5] The result was that, while still accounting for a very small share of overall employment,

> ... a great number of very small family businesses came into existence in agriculture, manufacturing, and services. Approximately three families in four now have income in addition to that received from a state or cooperative source. Work additional to that at the place of employment is estimated to be about one quarter of all work performed in state enterprises or cooperatives. Most of this work is performed on complementary or auxiliary agricultural plots.[6]

In 1981 about 3.8 percent of the active labour force was employed in the licensed non-agricultural private sector. This was in addition to the various forms of unlicensed activity, which Tardos noted were "widespread." The results of this "polarized" situation were both positive and negative. The quality of commodity supply and consumer services improved as a result of the "flexible marketing activity of small, often unlicensed firms and individuals less affected by central control," and "ambitious people were able ... to obtain extra income and to increase the national consumption fund significantly."[7]

On the negative side, "successful development of small business was hampered by administrative restrictions." Artisans were only permitted to accept orders from individuals, or produce only small quantities for enterprises. As well, they had difficulties obtaining materials and semifinished products, could not buy or rent equipment, and were taxed "prohibitively" on

increments in turnover. They also led some of the more successful entrepreneurs to spend their earnings in consumption rather than reinvesting to expand their businesses. These difficulties also "provided powerful incentives to get around the law." In addition, the high incomes possible in private enterprises made it difficult for some large enterprises to recruit workers, or led workers to take it easy in their regular jobs in order to save their energy for moonlighting. Other problems were some excessively high incomes, and flourishing corruption. Not surprisingly, "All this justified public dissatisfaction and led to administrative action to restrain small enterprises."[8]

Profound economic crisis in Hungary in the mid-1970s prompted the economic reforms of 1981-82, which included the deconcentration of state and cooperative enterprises and promotion of a remarkable range of new forms of small enterprise, established by government departments or other enterprises, or the contracting of segments of existing enterprises for individual operation, employing a maximum of fifteen people. These "mixed-ownership" forms, according to Janos Kornai, constituted "a new experiment in channelling the widespread illegal [forms of joint private-public undertaking] into a legal framework."[9] Other new forms included "economic teams" or partnerships of private professionals, and new forms of cooperatives consisting of from fifteen to one hundred members. Local governments were no longer allowed to refuse applications for licenses by independent skilled artisans, who were allowed to

employ a maximum of six family members and three outsiders.[10] The changes were accompanied by tax reforms to encourage the new forms of enterprise.

As Tardos points out, however, unless the reforms were accompanied by other changes to create an economic environment more favorable to small business, they would not achieve the desired growth. As well, among the public at large there would have to be "increased tolerance for some of the unfavorable effects of a market economy" including less job security, rising inflation, and greater income differentials.[11]

In a description of the problems facing independent operators that could apply equally to China's individual entrepreneurs, Kemeny says,

> It is increasingly the spirit of enterprise that characterizes the economic strategy of these small independent workers. Those who wish to undertake private ventures, however, immediately run up against restrictions deriving from the system. One may run a family business, but one can employ salaried labour to only a small extent, and it is quite out of the question to make large-scale use of such workers. The more a small business begins to expand, the more visible--and hence intolerable--it becomes for the system. It is already unacceptable if the income of the small entrepreneur increases too noticeably (and this is difficult to conceal), but it becomes utterly intolerable if he wishes to accumulate his profits. As a result, the income and the profits are used primarily for buying consumer goods ... At the same time, the restriction of the size of the firms results in an increase in the number of small independent entrepreneurs, since the market demand is continually on the increase.[12]

In a similar vein, Kornai says "There is enterprising spirit in several layers of the population. The question is whether this spirit will be supported or cooled down by the administrative, legal, and economic measures."[13] In a comment

also very relevant to the Chinese situation, he notes that the non-state sphere is not only dependent on market forces for its continued existence; even more importantly,

> It depends on the state, on economic policy, as well as on the behaviour of state enterprises and co-operatives. A part of the activities requires offical licensing, unless the person pursuing the activity risks illegality. Another part relies on open co-operation with state-owned or co-operative units ... Support of the state and co-operative sectors can be given, or official licenses may be granted, but they can also be revoked. This is why the non-state sphere is penetrated by an at times weak, at other times stronger feeling of uncertainty. This feeling of uncertainty can be dispelled only by unambiguous experiences of long duration.[14]

Yugoslavia

Somewhat surprisingly, private enterprise has evidently played a much smaller role in Yugoslavia than in Hungary. Again, private activity is very strong in the agricultural sector, where in 1980, according to the World Bank, it accounted for 71 percent of agricultural production and 92 percent of agricultural employment. Outside agriculture, small-scale enterprises employing no more than five salaried workers are permitted in any kind of business, and groups of private enterprises can operate as cooperatives while retained individual ownership of assets. The World Bank reports that "private nonagricultural employment rose from 3 percent to 4 percent of the total Yugoslav labour force between 1970 and 1981," hardly a remarkable record.[15]

The relative insignificance of private non-agricultural activity seems largely due to a legacy of restrictive policies. The 1946 Constitution permitted private enterprise only in agriculture and handicrafts, with a limit of five employees,

including family members. Exceptions in other areas such as tourism were tolerated, but discouraged by discriminatory taxation and other polices. Says one study, "They were regarded as a remnant of capitalism, redolent of exploitation and alientation, to be contained if not eliminated. No attempt was made to expand the sector during the pre-reform period" although its status was confirmed by new Constitutions in 1953 and 1964.[16] More lenient laws took effect beginning in 1963, designed especially to facilitate greater productivity in handicrafts, agriculture, and tourism, and concessions were made regarding social security and pensions. These changes prompted a debate during the reforms of 1967-68 about the proper role of private enterprise. The results paralleled Chinese discussions on the subject discussed elsewhere in this thesis.

Says one writer, "Perhaps the most significant factor which emerged from this debate was the widely held view that capitalism and private property were not necessarily synonymous ..."[17] Private ownership of the means of production under socialism came officially to be called "individual work with personal property," largely to exclude connotations of exploitation. A new policy adopted in 1968 declared that private work in tertiary sectors and agriculture, as a "socially necessary activity" and as a "supplement to social labour with social means of production", should be "encouraged and developed."[18] The statement also asserted that people engaged in private operations "should have the same rights and obligations as those working with socially owned means of production" and suggested means for integration

private sector workers into public health, pension, and social insurance schemes. Hired labour was restricted to the existing limit of five, beyond which the enterprise would become a "social sector firm"; in this case the owner would receive an annual sum in compensation and the business would be operated according to the rules for self-management of enterprises.[19]

Nevertheless, this new policy statement came at a time when the rapidly-growing private sector was under heavy attack for profiteering and in particular for the prevalence of "middlemanship." The outcome was a series of restrictive measures in the summer of 1968, with far more standardization of rules from republic to republic. A new Constitution in 1974 reaffirmed the existence of what it called "independent personal labour with resources in citizens ownership" and condoned new forms of public-private economic cooperation. It also contained a very guarded endorsement of hired labour, which would be permitted on an ad hoc basis, within the existing limit of five employees per firm. In addition, incomes were restricted by a provision that authorities had the right to convert any earnings from the surplus labour of employees to "social property" which would be "used for developmental needs."[20]

Policy measures encouraging the growth of the small-scale economy were introduced in 1978, and some of these introduced more leniency toward private enterprises. But continued restrictions obviously hampered the development and desirability of the private sector as a source of employment for Yugoslav citizens.

Interestingly, in the early 1980s the Yugoslav experience attracted considerable attention and criticism from Chinese writers. Although refraining from making explicit comparisons with the Chinese case, they nevertheless give arguments very similar to those used in discussions of the Chinese individual economy. One article in Jingjixue Dongtai (Trends in Economics), for example, noting the slow growth of the small-scale economy in Yugoslavia, gave a warning which could apply just as well to the situation in China:

> In treatment of the private portion of the small-scale economy, they have not shaken off the influence of dogma, they feel that private economy and petty commodity production are a danger to socialism, they feel that socialism is only connected with public ownership, and see the development of the small-scale economy as a holdover from the old days, connected with the development of capitalism.[21]

Moreover, said the author, "Because of the one-sided view of the private sector, in policy they have adopted various methods not beneficial to the development of the small-scale economy." In addition, "A lot of individual handicrafts producers, because the status of private and public enterprises are unequal, give up their own enterprises and find work in publicly-owned units." Despite the modest success of post-1978 liberalization, the article pointed out, the private sector in Yugoslavia continued to grow slowly, and the economy as a whole continued to be plagued by problems such as the prevalence of illegal underground businesses, widespread tax evasion, and other illegal practices.

Poland

The treatment of the private sector in Poland since the 1950s has been at least as erratic as in China.[22] Immediately after the war (which decimated the stratum of small shopkeepers and tradespeople, more than 70 percent of whom had been Jewish)[23] official attitudes toward private trade hardened. The "battle over trade" of 1947-48 ended with the institution of new restrictions in 1949 which set up an extensive control apparatus and limited private profits by means of price controls, taxation, and licensing. Private firms were also excluded from wholesale trading, either by discrimination in supplies or by outright prohibition. Although the number of private firms fell sharply, (comprising 3.5 percent of the non-agricultural workforce by 1955)[24] the slack was not taken up by the public sector. This was partly because, as in China, trade was disdained by the new regime as a lower priority than industrial production. Artisans and salespeople who became factory workers were praised in the newspapers. "Trade was understood as the mechanics of distribution without regard to consumer service. Service fell permanently to a very low level,and the malfunctioning of trade meant poor satisfaction of the needs of the population."[25]

Another permanent effect of the restrictions on private trade, was that the control apparatus became the locus of the vested interests of officials who from then on opposed any attempts to legalize the private sector and thus erode their own power. Moreover, because of increasingly stringent policing, any

entrepreneur who did stay in business was virtually guaranteed of a stay in prison at some point. Because of this ever-present risk, "Insecurity formed the consciousness of entrepreneurs."[26]

From 1949 to 1956, the era of "full Stalinism" in Poland, one of the stated goals was the elimination of all capitalist elements. Many private businesses were pushed out of business through the expedient of currency reform, in which the old currency was exchanged for new at a rate of 3:100 for employees of state enterprises, and 1:100 for private businesspeople. Many of them closed their shops and switched to market trading.[27] According to Aslund, "In the most fateful year, 1950, 35 percent of the employment and enterprises in the urban private sector were eliminated. The number of private enterprises declined by 60 percent between 1947 and 1953 and employment even more." Retail commerce and catering were among the worst hit: 1955 employment in private retailing was 4 percent that in 1947, and the number of private catering firms in 1956 was only 2.1 percent that in 1947.[28] Equally significant was the ideological legacy of the Stalinist years: "Stalinism bequeathed to the Poles the idea that communists consider entrepreneurs as class enemies."[29]

Policy toward private enterprise softened somewhat after the death of Stalin. The general political changes of 1956-57 resulted in a period of reform, one of the results of which was the immediate liberalization of policies toward private economic activity, which had come under strong criticism. The costs of rapid socialization were reassessed, and now small production was praised for its flexibility and ability to respond to market

conditions. New measures made various aspects of small business operations easier, but the ultimate aim was still the eventual liquidation of private activity. Private small-scale production was still seen as the product of backwardness and lack of development of the socialist sector. Said the reformist economist Oskar Lange in 1957,

> It may be asked whether the petty commodity sector will remain a permanent component of socialist economy, as it was under capitalism. That is hardly probable. The petty commodity system prevailed under capitalism, because it constituted a defence and a refuge from proletarianisation. This motive does not exist under socialism. It will pay less and less to exist on the low productivity of petty commodity production, as the socialist economy grows.[30]

The relaxed policies caused a resurgence of private trade, and with it widespread criticism of speculation, excessive incomes, and unfair competition with the socialized sector. Beginning in 1958 more restrictive measures were again introduced, leading to more liquidations of private businesses, and more illegal activities. Although in the mid-1960s there were some concessions toward private handicrafts production, for the most part restrictions on private enterprise remained stringent until the mid-1970s.

In 1977, the policy again turned toward liberalization, which continued even through the political crises of the early 1980s. Even so, in 1980 the private sector only comprised 4.9 percent of the non-agricultural workforce (compared to 3.5 percent in 1955); 10.4 percent of all retail outlets and 16.1 percent of all catering outlets were privately owned (with another 8 percent leased for operation by individuals). Licensed

private trade is restricted to certain businesses which depend on private supplies, such as greengrocers, florists, and market-places. The urban private sector is dominated by handicrafts enterprises, which are limited to six hired workers (reduced from ten to one in 1955, then raised to four in 1956 and six in 1966), but average two employees per firm. There is also some private activity in construction, the professions, and various services. One area in which private activity is dominant is taxis; in 1980, 96.4 percent of all the taxis in Poland were privately owned.[31]

More than one author has commented on the effects of legal insecurity and policy fluctuations on the private entrepreneurs in Poland. Says Misztal, echoing Kornai's remarks about the private sector in Hungary,

> Whether or not one believes that socialist Poland could do without the private sector at the present time, the policies of the state should not be interpreted as a statement that this goal can never be achieved. They simply express the view that at the present stage of economic development ... it is not necessary to demolish this peculiar grouping. But such a reform could occur at any time, and the social role and importance of the private sector would be replaced by state agencies. All it requires is an administrative and organisational decision to do so.[32]

According to Misztal, the constant fluctuation in policy over the last three decades has created a new kind of private entrepreneur in Poland, different from his or her petit bourgeois predecessors:

> ... a new type of small businessman has emerged: a chameleon. He constantly changes the rules of the game, adapting himself to the changing situation, altering his field of activity, responding to the needs of the market. Thus a new and different ideology has emerged, stressing adaptability to rapid change, a full awareness of the social situation and the ability to survive.[33]

Aslund presents a similar picture. He likens the Polish entrepreneur to a war speculator or NEPman:

> A new type of entrepreneur has appeared, formed by socialism and cut off from old business traditions. He is generally very able and innovative, but as an entrepreneur and not necessarily as a craftsman. Desiring quick and large profits, he is more market-than production-oriented, and prefers to make fashionable rather than durable goods. If he plans at all, his planning horizon is very short. This sort of entrepreneur or smooth operator appeared in the Soviet Union under NEP ... [34]

Also because of their shaky position, "entrepreneurs have acquired a peculiar social status which preserves their alienation. A disparity exists between entrepreneurs' very high incomes and their low social prestige." Officials in particular are hostile and jealous: "Mutual contempt appears to prevail between these two groups, who are champions of conflicting ideologies." Moreover, social isolation and illegal practices makes them an easy political target when a target is necessary.[35]

Aslund argues that in Poland it will probably prove impossible to root out private trade completely. Every time legal private activity has been successfully repressed, it has simply been replaced by illegal activity, because the reasons for its existence--primarily, severe shortages--were never eradicated. He concludes that

> The choice between an illegal and a legal private sector appears compulsory for developed Soviet-type economy. The reason for private enterprise not being eliminated in Soviet-type economies is that it cannot be abolished. Any pretension that it is possible to abolish the private sector is tantamount to a preference for market disequilibria and illegal enterprise. After illegality has been promoted, it has proved very difficult to contain.[36]

The German Democratic Republic

Aslund's study contrasts the private sector of Poland with that of the German Democratic Republic (GDR), revealing significant differences largely caused by the protracted period of socialization in the GDR and the relatively short duration of full Stalinism compared to Poland.

Socialization of the economy was introduced very gradually in East Germany; the proportion of the labour force in private enterprises was still 46.6 percent in 1952,[37] but between 1949 and 1952 attempts were made to eliminate private wholesaling, institute market regulation, and place limitations on private profits.

Although anti-speculation measures and the introduction of state shops eroded the private share of retail turnover, there was no campaign against private trade during this period and, according to Aslund, "little communist contempt for trade evolved in the GDR."[38] The general leniency was reflected in the tax rates, which were less steeply progressive for the petty commodity sector than for capitalist firms, and free professionals were taxed at the same rate as ordinary workers.

This approach changed in 1952 with the short-lived adoption of Stalinist policies, including the elimination of the private sector through tax increases, restrictions on supplies, strict enforcement of new laws on economic crime and price regulations. Also, the self-employed were deprived of ration cards, which meant they had to buy rationed goods at higher prices. This new

approach caused many private operators to turn to illegal businesses or to emigrate, but as in Poland, the slack was not taken up by the socialized sector.

A liberal interlude followed the death of Stalin and the workers' uprising of 1953. Regulations on private operations were loosened but not eliminated, as the government sought to "boost entrepreneurial incentives and initiative as quickly as possible to promote the production of consumer goods to keep the workers quiet."[39] The private sector revived quickly as socialized firms were put back in private hands, liquidated firms revived, and new businesses established. Then, in an already-familiar pattern, the private sector began to be criticized for successful competition with the socialized sector, for luring employees away from publicly owned enterprises, for earning excessively high incomes, and for speculation. However, during this period the necessity for private enterprise continued to be recognized.

Policies tightened again in 1958-60 as a result of political struggles, but from 1961 to 1970 the New Economic System again stressed cooperation with the private sector. In the early 1970s the ideological tide again turned against the private sector, with mass nationalization of private firms in the spring of 1972. After 1976, however, the policy turned back to one of accommodation.

The results of this instability appear somewhat less pernicious than in Poland, according to Aslund, because offensives against the private sector were so slow to take hold,

and because the period of Stalinism was so short. In fact it was not until 1972 that there was any concerted attempt to forcibly socialize private business. Nevertheless, while in 1955 30.8 percent of the GDR non-agricultural workforce was employed in the private sector, by 1980 its share of employment had shrunk to 5.2 percent.[40] In retail trade, individually-operated private stores, commission shops, and handicraft shops engaging in retail sales accounted for 36 percent of all retail outlets in 1977.[41] In retail trade there is an informal limit of thirty employees, although private firms apparently rarely reach this level. In handicrafts hired employees are limited to ten. Because in the GDR private trade has been allowed to compete directly with socialized enterprises rather than being limited to certain trades, it is found in many more areas of economic activity than the private sector in Poland. Concludes Aslund, "a substantial and integrated private sector played an important role in the national economy."[42]

Private incomes in the GDR are not as conspicuously high as in Poland, and in general peaceful coexistence with the socialized sector has been the rule. According to Aslund, "The typical GDR entrepreneur is old, conservative, and fairly law-abiding. Despite the seller's market he maintains good work ethics. He is cautious and plans for the long term." In contrast to the Polish entrepreneur, "He has not been transformed by socialism, but is a remnant of the old society."[43]

The relationship with officialdom is also much more benign. Supplies are easier to obtain therefore there is little necessity to resort to illegal sources or to pay bribes. Tax officials are less vigilant and entrepreneurs simply pay taxes based on their own yearly reports. Fines for minor cases of tax evasion are light and many violations are simply ignored. As Aslund describes the relationship:

> An informal understanding between authorities and entrepreneurs seems to regulate violations. If some rule turns out to be inoperable, failure to comply with it is ignored by the officials. The informal laws are more sensible and consequently more respected than the written laws. On the other hand, East German authorities are assumed to keep themselves discreetly very well-informed. They drop hints to entrepreneurs about their knowledge to reinforce discipline without legal sanctions. The exemplary effects of rare prison sentences contribute to law enforcement.[44]

Nevertheless, beneath this benign picture, the corruption and lavish living standards of some private entrepreneurs, and the growth of the underground economy, are all symptoms of what Aslund calls the "legal degeneration" of the private sector which is making its presence felt in the GDR as well as in other Eastern European states.

The Limits of Socialization

The foregoing review of the fate of the small-scale private sector in other socialist economies reveals that for all these countries, the long-term goal of eliminating private enterprise has had to be shelved in the face of the continued need for and dogged persistence of this sector. As Nove concludes on this subject,

> One returns again and again to the thought, expressed by Marx, that modes of production pass from the scene only when they have exhausted their potentialities. Nowhere in the communist-ruled world have small-scale production and distribution, for and through the market, exhausted their potentialities. On the contrary, they have to be kept under by prohibitions and by repeatedly invoking the criminal law. Yet nowhere does Marx say that the petty bourgeoisie should be eliminated by "socialist" police! ... Soviet experience demonstrates the inadequacy of what might be called the police solution, the frustration of potential petty entrepreneurs and of their potential customers. It suggests that there is plenty of room for spontaneity, for freedom to fill gaps in planned production and to respond to user requirements without involving the complex bureaucratic structure.[45]

Yet at the same time, even in those socialist countries which have recognized the value of small-scale private enterprise (or at least the impossibility of eradicating it), early attempts at prohibition, the general ideological climate of suspicion of non-socialist enterprise, policy fluctuations, the strained relationship between private entrepreneurs and the officials who control them, measures to limit the size of firms and excessive profits, have all combined to produce a situation of insecurity for small entrepreneurs and lack of confidence in their long-term survival. This in turn has encouraged a host of what Chinese writers call "unhealthy tendencies": illegal practices, absence of long-term planning, preference for consumption over reinvestment, concentration in activities requiring less investment in fixed assets, avoidance of bank accounts, widespread tax evasion, a minority of entrepreneurs with conspicuously high incomes attracting public jealousy and disapproval, and other features also apparent in the Chinese individual economy. The experience of other socialist countries

suggests that in China too, the tension between the need for small-scale private enterprise and the desire to control it will persist, and with it the "deformations" of the private sector itself.

Small-scale Enterprise in Developing Economies

The role of the "informal sector" in the urbanization process of developing economies is a much-studied phenomenon.[46] For the most part, this work has been done in the context of countries in the process of transition from pre-capitalist to capitalist economies, which for most of the Third World has become synonymous with the development process. "Informal" urban enterprises--from individual garbage-pickers to street vendors to small-scale workshops--have proved to be an important element in the urban scene of countries undergoing this process in all parts of the world. Depending on one's theoretical perspective, such activities have variously been seen as "traditional" holdovers (although many of them did not exist in the precapitalist economy but actually seem to be products of the development process itself); as a deformation caused by the inequities of capitalist development (although in many cases the denizens of the "informal" sector have higher incomes, more security, and more satisfaction than they would in the "formal" sector); as "marginal" workers cut off from the mainstream of the development process (although to a large extent they are integrated into that process, make substantial contributions to it, and perhaps even make it possible); as candidates for proletarianization (although

there is often little room for them in the "modern" industrial workforce); or simply as unsightly and unruly blots on the urban landscape (although they contribute much of the life, vitality, and "colour" to Third World cities.)

As economies develop, certain seemingly inevitable dilemmas and processes emerge. Development has for various reasons (including transformations of rural economies resulting in massive migration to the cities) generally been accompanied by urbanization. Although some countries of the developing world (such as Taiwan and the Republic of South Korea) appear to be repeating the Western experience of urbanization, with a corresponding rapid growth of employment in modern-sector enterprises, for the majority the experience has not been the same. In these countries, because of the inability of large-scale enterprises in the capitalist sector to absorb surplus labour, and because for urbanites of the Third World few other alternatives exist, a great many have become self-employed, engaging in small-scale manufacturing, sales, transport, and services. It has been estimated that over half the workforce in many Third World cities is engaged in what is often called "informal" employment, a figure which far exceeds the proportion of self-employed workers in the developed countries.[47]

This phenomenon has been intensively studied by researchers, and literally thousands of field studies from all parts of the Third World, as well as a voluminous theoretical literature, has been published on the subject. Despite important differences in perspective, one perception that all these studies

share, however, is that this sector is very different from the capitalist sector, in its outward characteristics and in its internal structure and workings. Although initially seen as an essentially autonomous sector preserving "traditional" or precapitalist ways of doing business within the dualistic economies produced by the process of development, it has come more and more to be seen as an integral and even necessary part of that process. Whereas earlier works predicted the demise of the "informal sector" as capitalist development continued, later studies emphasized its persistence or conservation, albeit in forms altered by its linkages or "articulation" with the capitalist sector.[48]

There are many reasons for the persistence of the small-scale sector.[49] First, many of its activities, especially those geared to the needs of the lower end of the domestic market, are not profitable for capitalist enterprises, which tend to be export-oriented or at least geared to import-substitution, largely for the growing local urban middle class. It tends to operate in areas which the capitalist sector avoids of because of low profits and high operating costs. When the market does become profitable for capitalist enterprises, they readily move in and take over (as for example the recent penetration of "convenience stores" into third-world cities as incomes rise.)

Secondly, the continued existence of a large non-capitalist sector provides a cheap surplus labour force, which holds wage levels down and which provides a readily-accessible pool of workers for capitalist firms whose labour demands are unstable; a

pool of workers who, moreover, can be laid off and rehired again as necessary without the risk of worker rebellion. The sector also provides an outlet for putting-out work, again saving the capitalist firms the expense and bother of employing workers who will be laid off when no longer needed. Many informal firms are actually far from independent, working for capitalist enterprises in various kinds of arrangements, for example engaging in processing or manufacturing on a contract or piece-work basis. This saves the larger enterprise from formally employing these workers with whatever obligations that may entail, and it saves them from having to invest in the necessary machinery or premises--especially important in industries or trades which are seasonal or which are tied to the vagaries of the world market. In effect it is a way of externalizing labour costs. This also helps to keep the products of the capitalist firms competitive on the world market.

Third, the informal sector provides ready employment for the lower stratum of urbanites, especially for migrants from the countryside. Moreover, with the family as the central economic as well as social unit, the existence of the sector represents substantial savings to the state in terms of social security and other kinds of social welfare investment which developing countries cannot afford, or are unwilling to provide. This is especially true in economies which depend on a cheap labour force and low taxes to attract international investors.

The informal sector also produces and/or distributes goods and services which are necessary for the lower and middle strata of the consumer market, in forms which are accessible to them and at prices they can afford (here one thinks of the tiny shops in residential areas which sell low-cost daily necessities, of hawkers selling cigarettes by the piece to customers for whom a whole pack is a major investment, of market stalls which sell fresh produce daily to households with no space for storage and no refrigerators, or of artisans who repair household items at little cost.) This also, as many studies have pointed out, helps to keep down wage rates in the "formal" (capitalist) sector since workers will not demand higher wages to pay for higher priced goods and services available from larger enterprises.

Finally, from the point of view of the small-scale entrepreneurs themselves, the informal sector offers a degree of independence and security not available to workers in the capitalist sector, a measure of control over their own lives which petty entrepreneurs all over the world have fought hard to retain.

Of course, these are gross generalizations which must be modified in the light of local conditions and dynamics, and according to the point in the development process a particular locality finds itself. What is important to note here is that despite local variations, this persistence of small-scale enterprise in the development process is a widespread phenomenon. Indeed, as one Chinese study has pointed out:

> Through every social formation, the reason [small-scale production] was tenaciously able to persist, was because it continuously reformed its modes of production and operation, in order to suit the needs of the people's economic life; it became an appendage to the major economic form within any social formation, playing out its supplementary role.[50]

Notwithstanding the forces of conservation, however, a concurrent and complementary process of "dissolution" has also taken place. In part this comes from growing competition from the capitalist sector, which has turned more and more to producing and distributing consumer goods that local markets can afford. Also, capitalist sector firms have taken over some of the more lucrative activities of the informal sector. Governments have taken an active part in this process, as Armstrong and McGee point out:

> Dissolution ... is often facilitated by the intervention of the state in the interests of "modernizing" the economy. The encouragement of foreign enterprise, producing consumer items such as shoes or clothing, or the banning of a multitude of small-scale transport units to allow a large-scale transport company to control the public transport system, are obvious examples ... More subtle are policies which establish standards of quality or hygiene controls based on standards current in the developed countries, and which, given the capital required, can only be met by large corporations with significant reserves.[51]

In terms of policy, the approach of most Third World countries to the informal sector has been ambivalent. Even if small-scale entrepreneurs are encouraged, it is usually within bounds which have shifted over time. Many are simply illegal, or operate on the margins of legality (especially in questions of licensing and taxation). In many countries the only difference between legality and illegality is a license which is expensive or difficult to obtain, but unlicensed operators face the

ever-present danger of closure, fines, or police harassment. The legal insecurity of these entrepreneurs influences to a great extent the way they do business.

Thus despite the resilience of the small-scale economy as an economic sector, for individual operators and their families within that sector, there is still a large degree of insecurity. As in socialist societies, small-scale operators in developing economies are subject to the vagaries of the market, to the often hostile strategies of capitalist firms, and to the policies of governments which may or may not be sympathetic to their continued existence.

The informal sector in developing economies seems to have much in common with the stratum which in Marxist analysis is identified as the petite bourgeoisie. Indeed, summarizing a study of the petite bourgeoisie which ranges over artisinal bakers in France, private businesses in Poland, small farmers in Canada, and petty capitalists in the Third World, Bechhofer and Elliott find more commonalities than differences:

> The one thing they all have--the crucial thing--is petty productive property, and it is property with which they work themselves. It is their labour and very frequently that of their families and kin, that they mix with this property and though a good many also become the employers of hired labour, the scale of that exploitation is typically very small and is an extension of, rather than a substitute for, their own labour.[52]

Another commonality these authors find is that "The hallmarks of [their] experience seem to be uncertainty and contingency." Their insecurity comes from their relative lack of power, which in turn stems from their subordination: "In all

circumstances, it is a dependent stratum; dependent first and foremost on the dominant economic groups and institutions. It is their decisions, their interests that do most to affect the size and circumstances of the stratum."[53]

This dependence and resulting insecurity makes the survival of the small-scale sector all the more remarkable. Bechhofer and Elliott describe the secret of this survival very eloquently:

> ... [In] widely varying conditions, and frequently against formidable economic and political odds, men and women using minimal amounts of property have found ways to survive. Sometimes they have accomplished this by defending their old trades, often they have accurately identified and exploited deficiencies in the operators of large companies or of state enterprises. Survival has rested upon continuous adaptation--not always at the level of the individual petit bourgeois, for many have been inflexible and have gone to the wall--but at the level of the stratum as a whole. Adaptation has often been born of dire necessity ... As with all small fry, the persistence of the collectivity masks the fact of high mortality, and of depredations by governments and larger enterprises which pose continuous threats to the aggregate's survival. But so far it has survived and it is hard to accept that there are any ineluctable forces which will destroy it.[54]

This, however, is a relatively recent and still disputed view. Much of the literature on economic development in the third world--from all political stances and theoretical perspectives--has shown a bias against informal activity, or at least a fatalistic attitude toward its survival. By modernization economists and by orthodox Marxists it is seen (for different reasons) as a symptom of a backward economy. By neo-Marxists it is seen as a symptom of capitalist exploitation, preserve of the "reserve army" of the unemployed or underemployed, to be absorbed and then ejected by the capitalist economy according to its needs. Dependency theorists tend to see

it as a symptom of marginalization, while modes-of-production theorists wait for it to be "articulated" out of existence by the newly dominant mode of production. Any model with an evolutionary or teleological tendency sees it as a holdover, "traditional" or "backward", a "remnant", with the implicit assumption that as the economy develops (for better or worse), informal activities will eventually disappear, by absorption, articulation, elimination, or "modernization."

More recently, however, a new and more positive valuation of the informal economy has begun to emerge, particularly among third-world scholars. This view looks at the informal economy from the point of view of its active participants, and finds that, far from being exploited and "marginal," their flexibility and independence of action actually insulate them from the economic vagaries and cycles of the world and domestic capitalist economies. Compared with the proletarianized factory workers in the dominant sector, these entrepreneurs have a relatively large degree of control over their work environment. They are not subject to arbitrarily dismissal. They are, within the constraints of skills and capital, free to change their employment if better opportunities present themselves. They can work at home if they want, in their communities and together with their families. It could be argued that in terms of quality of life, they are much better off than their proletarianized comrades. This is all the more true because in most third-world economies, very few workers are provided with a "safety net"

either by their employers or the government, in the form of unemployment insurance, disability benefits, maternity benefits, old-age pensions, and so on.

The Indonesian writer Adi Sasono, for example, argues that in times of national economic depression or global crisis, "micro-entrepreneurs" have actually prospered, by "relying not on government paternalism and planning, but on their wits, energy and ambitions."[55] This allows them to seize business opportunities that are closed to modern-sector enterprises because the latter require larger investment, have greater costs, and rely on economies of scale to ensure their profitability. Seen from the point of view of the small-scale entrepreneurs, then, the survival of non-capitalist economic forms is due in large part to the positive actions of the entrepreneurs themselves, who are doing more than just coping. According to Capecchi and Pesce,

> One of the most significant limitations of leftist thinking has been that of seeing industrial revolutions, and the changes in the organization of production they imply, as processes which annihilate all pre-existing forms of organizing life, society, and economy. Many pre-existing forms are preserved by the actors themselves who are subjected to industrial transformation and transferred from one society to another, from one mode of production to another. This is not a nostalgic conservation of the past, but rather the demonstration of a capacity to resist transformation as a way of maintaining possible zones of autonomy.[56]

This notion may give clues to new ways of conceptualizing informal economies in the development process, be it capitalist or socialist. In the following section, the experience of small independent enterprise in both socialist and developing capitalist economies will be applied to the case of the Chinese

individual economy, keeping in mind the three underlying themes mentioned at the beginning of this chapter--subordination, insecurity, and persistence.

The Chinese Experience in Comparative Perspective

China is in many ways an exception both for developing countries and for socialist countries. Unlike many other developing countries, it never experienced full-scale colonization. Historically it was a well-developed, intricately organized, relatively integrated and centralized bureaucratic state which exercised a large degree of control over at least the upper reaches of the economy. Also unlike other developing countries, pre-revolutionary China was integrated only minimally into the capitalist world economy, and this occurred at a relatively late date compared to other developing economies.[57] It was, on the other hand, the centre of its own regional "empire" with intricate trade and tributary relationships with the surrounding states. The urban economy was dominated by independent small-scale productive, commercial, and service enterprises. There was a well-developed system of rural markets and trade between the cities and their hinterlands and, it has been argued, the beginnings of a national market system and, in some areas, indigenous "sprouts of capitalism". This structure was considerably disrupted by a century of civil war and foreign invasion, as well as by the inroads of foreign capital and political intervention, but remained as the basic historical legacy.[58]

Special geographic and demographic factors must also be taken into account, including such factors as the very large and fragmented land area, the large and dispersed population, the difficulties of transportation and communication, great regional disparities, relative isolation from neighbouring countries because of geographical buffer zones at the frontiers, etc.

Within this system there was a clear distinction between large-scale enterprise in which the state played an active role by means of taxation, regulation, and bureaucratic management, and small-scale enterprise which was in many respects more autonomous. At least in part because of the practical difficulties of administration in a country as large and varied as China, central control was largely confined to the more strategic and more lucrative sectors of the economy, and spatially to the more prosperous economic "core" areas. The millions of small local artisans and traders operated with a relatively high degree of independence.

Even in modern times, China's experience has differed from that of other developing economies.[59] Most significantly, it has not followed the "capitalist road" of development. Nevertheless it faces many of the same problems confronting other developing economies, mostly connected with the necessity of raising the living standards of the largely impoverished population while making the transition from a predominantly rural agrarian to an urbanized, industrialized economy. Like other developing

economies, the spatial and sectoral pattern of development has been uneven, concentrated in certain areas and sectors while leaving behind large pockets of poverty and underdevelopment.

The results of this uneven development process have paralleled those of other developing countries. The main aspect which concerns us here is the continued importance of small-scale and household production, in agriculture, in industry, and in the tertiary sector of commerce and services. In many respects, the state-run sector seems to take the place of the capitalist sector in other developing countries, spearheading "modern" development of a sort that is unable to absorb all available labour and which cannot satisfy all the needs of the consumer market. It would perhaps be unwise to push the analogy further given all the differences in development strategy and the role of the state. Yet it can be said that the proliferation of what could easily be called the "informal sector" in the Chinese economy has come as a response to a set of problems arising from the development process which are very similar to those of developing countries in the capitalist world.[60]

The major difference, however, is that where most Third World states barely tolerate the existence of the urban individual economy despite the services it performs, in China it is being promoted as a deliberate policy to smooth out some of the inequities and unevenness in the development process. In the Chinese literature, the promotion of the urban individual economy has been justified on the grounds that it is a means of creating badly-needed employment in the cities for labour that cannot be

absorbed by the dominant publicly-owned sector, that it fills gaps in public-sector supply of goods and services, that it provides needed channels for urban-rural and interregional commodity circulation, that its flexibility and sensitivity to consumer demand enhances the supply of goods and services to urban residents and contributes convenience to urban life, that it preserves traditional products and handicraft techniques, and that it is an added channel for capital accumulation by the state. Moreover, it accomplishes all of this with a minimum amount of state investment. These are all functions of the small-scale sector in other developing economies, yet for the most part in those economies they are acknowledged at best by tacitly permitting the sector to exist, rather than actively promoting it.

If the differences between China and other developing countries are less profound than appear on the surface, the same can be said when it is compared with other socialist countries. Unlike the socialist countries of eastern Europe, when the communists assumed control in 1949, China was only minimally industrialized. For the most part it was still an agrarian society. The urban economy was dominated by small-scale enterprises, and capitalism had only taken hold in certain enclaves, especially the former treaty ports. Thus in terms of economic conditions it faced quite different problems than the post-war eastern European states (although it was somewhat more similar to the Soviet Union at the time of its revolution.) Yet the primary task all these countries shared was the transition to

socialism, and they accomplished it in quite similar ways, largely under the influence of the Stalinist USSR model. The problem for all of these countries has been modifying that model to suit their own needs and circumstances and to reflect the lessons learned from hard-won experience. Recent reforms in many of the socialist countries, including China, reflect the continuing need to do so.

For many of these countries, these reforms have included revival of the small-scale urban private sector. Yet the forces of socialist development have also placed their own constraints and demands on the growth of the small-scale private economy. In all these socialist countries, the legacy of the formative Stalinist period has placed both ideological and structural constraints on the sector which have proved difficult to eradicate. In addition, several decades of fluctuating policies, with the underlying aim of eventual eradication of all private business activity, have taken their toll, contributing to the insecurity of the private entrepreneurs, influencing and even corrupting their activities. Yet because of their contributions to the stability of the public-sector economy, and to the quality of life of the entrepreneurs and their customers, they have persisted in spite of formidable obstacles.

All of these factors have not only affected the treatment of small entrepreneurs by the state and its cadres and influenced the growth of the sector, they have also, as noted in the East European cases, affected the way individual entrepreneurs do business. For instance, it has already been noted that many

individual operators in China are reluctant to keep their earnings in bank accounts or to reinvest in expanding their businesses, tending instead to spend their profits on consumer goods and conspicuous consumption. Choices about the type and scale of business are also influenced by feelings of insecurity and fears of future policy change, creating a tendency to go into businesses which yield quick profits with little capital investment. Insecurity also contributes to the prevalence of illegal practices such as tax evasion and speculation (which in turn creates harsher official attitudes which do much to reinforce general feelings of insecurity even for law-abiding operators.)

Given these commonalities and differences between China's post-Mao experience in restoring small-scale private activity and that of other developing and socialist countries, we should now turn to the question of synthesis. What are the general features of China's development strategy after the post-Mao transition, and what role does it hold for the individual economy?

The Chinese Individual Economy Under "Socialism with Chinese Features"

For China, one of the major thrusts of the post-Mao reforms has been to return to a more "Chinese" model of socialist development. According to one study, "socialism with Chinese characteristics" encompasses four basic features. First, in "the relationship between national construction and improving the lives of the people," the basic principle is "first we must eat,

then we must construct." This reflects the current investment priorities for China's very large, primarily agrarian, and still very poor population. Secondly, there must be a balance between planning and utilization of market forces, reflecting the continued importance of commodity circulation and problems associated with overly centralized "command" economies. Third, the socialist principle of "distribution according to work" must be implemented in such a way as to provide adequate incentive to the workers. Finally, the structure of ownership must be diversified to reflect disparities in the level of development.[61]

One of the consequences of this new program has been the promotion of what might be termed "intentional dualism"--a renewed emphasis on the preservation and proliferation of small-scale economic forms. Compared with large-scale forms, these tend to be more autonomous, to generate their own investment rather than relying on state investment, and to be more labour-intensive--that is, to absorb more labour per yuan of capital investment. All this allows state investment and bureaucratic resources to be concentrated in the more productive and more strategic sectors of the economy. It could be argued that this is a return to a form of the "walking on two legs" strategy which was a prominent feature of the ill-starred Great Leap Forward; it also bears some resemblance to the traditional Chinese system of economic organization, with its similar distinction between large-scale and small-scale enterprise. The promotion of the urban individual economy has been an important feature in this approach, with the added distinction that in a

system where large-scale enterprises are almost exclusively state or collectively-owned, the defining characteristic of the individual economy is private ownership.

Assuming that this new development principle will be retained as a guide to policy, what does it imply for the future of the individual economy?

Xinhua News Agency reported in January 1986 that by the end of China's seventh five-year plan period (1986-1990), the non-agricultural individual economy would employ fifty million people.[62] Most of this growth was expected to take place in the countryside as the effects of new rural policies pushed increasing numbers of peasants off the land and into non-agricultural occupations in their own villages or in the growing regional urban centres. But in the cities too, individual enterprises would play an increasing role, both in absorbing labour and in expanding the sector of commerce and services. It is clear that the enterprises of the dominant socialist sector simply cannot absorb the millions of new entrants into the urban job market every year, let alone would-be migrants from the countryside. Nor will they be able to do so for some time to come. As long as this is the case, the individual economy will be an important source of employment, continuing the trend which has increased its share of newly-created urban employment from about 2 percent in 1979, to more than 15 percent in 1984.[63]

In addition, the commitment to continued diversification of the economy and emphasis on material incentives also bode well for the future of the individual economy. At present it is one of the few sectors where imagination and initiative reap tangible rewards, and this will continue to appeal to at least some of China's more daring and less security-conscious citizens, especially if policy measures continue to improve the social and political status of the self-employed. In the process, this will harness their energies to promote economic development, especially in the tertiary sector which has been targeted for growth.

Chinese scholars and policy-makers alike have recognized the contribution that individual entrepreneurs can make to the development process, especially to a process which is intended to promote development while retaining "Chinese characteristics." Because of the unevenness of the development process, key areas remain where socialized large-scale production has simply not been able to replace small-scale private production and trade, or has done so ineffectively and inefficiently. An important element of the post-1978 economic reforms has been to translate that recognition into coherent policy, to utilize actively the non-socialist elements in the development process. An address given at a symposium on the system of ownership held at the end of 1985 reaffirmed this principle, saying that continued reform of the ownership system was as crucial to China's overall development strategy as the reform of operations mechanisms themselves. In discussing the "target pattern" embodied in the

reforms, one scholar reaffirmed the role of the privately-owned sectors, "which are mainly the sectors of the individual labourers and traders":

> If we say that the existence of between 1 percent and 2 percent of non-publicly owned [sectors] is not in conflict with the dominance of the publicy-owned sector, then it is hard to say that the publicly-owned sector will not dominate if the percentage is raised to, say 10 percent. As for a small number of private firms which are capitalist in nature, as long as they do not affect the dominant position of the public sector and as long as they are conducive to invigorating our economy and developing our productive forces, we should continue the experiment of allowing them to exist. ... At the same time, ... we should investigate the way to guide the private economy in transforming itself into a co-operative economy or a joint-stock economic sector of which the state takes a part of the shares.
>
> ... As the [publicly-owned] economic sector, in particular the state-owned sector, constitutes an overwhelmingly large portion of our economy, we need not be in any hurry to set [an objective] proportion between the various ownership sectors, but should let the process of ... market competition determine the quantitative limits on the proportion of the various sectors of ownership. Those which prove to be efficient in equal market competition should be allowed to exist and develop and those which rely on the support of the state for their existence ... should not be shielded forever. This method does not constitute a threat to the state-owned economy which has a quantitative ascendancy at present. On the contrary, it provides great impetus and pressure to urge the state-owned economy to accelerate the reform and raise its economic results, and thereby be able always to maintain its ascendancy in our economy as a whole.[64]

The underlying implication of this statement, though, is that as the socialist economy develops more fully, the need for the individual economy to balance out its deficiencies and rigidities will diminish. A fully developed socialist economy will also be one in which there is no longer any role for the individual economy to play. Indeed, given the assumptions of the "forces and relations of production" theory of economic development, the continued presence of a significant private

sector is evidence of an underdeveloped economy. Although it must continue to exist as long as regional and sectoral disparities persist, it is in some sense a symptom of the failure of socialist development. Even if it is promoted as a means to that end, its continued existence is problematic because it is a sign that the goal has yet to be reached.

Apart from the long-term insecurity this attitude implies for individual entrepreneurs, there is the added factor that stated or implicit limits on the growth of individual firms will continue to affect the business practices of all individual operators. Already uncertainty over the contentious issues of hired employees in the individual sector, and excessively high incomes of some entrepreneurs, have caused considerable doubt about the future of the sector. As some observers have pointed out, public discussion of these issues in 1985 was one of the factors leading to a temporary decline in the number of individual firms in the first half of 1986.[65]

There are few signs that the sources of uncertainty discussed in this thesis will diminish quickly. Indeed, the experience of other socialist countries shows that they may be endemic to socialist systems. As long as the individual economy prospers, it will continue to engender "contradictions" which may lead either to its eventual demise, or to an even more major restructuring of economic goals to further reduce or even eliminate the dominance of the publicly-owned sector. The only resolution to this dilemma is explicit adoption of the principle that a healthy, developed, socialist economy has to include as a

permanent feature a healthy, profitable private sector. Given the continued controversies in the political sphere, it is difficult to predict whether this will ever happen.

Nevertheless, barring any major leadership changes, if the individual economy is again eliminated in the future, either by fiat or by the growth and development of the socialist sector itself, this eventuality will probably be a long time in coming. For the foreseeable future, the need for the individual sector will persist. In the words of one Chinese scholar: "Only when the forces of production have developed to a high level, when material products are as plentiful as they can be, when individual people's needs can be fully guaranteed and satisfied, can the individual economy finally step down from the stage of history ..."[66]

Until that day, the individual economy will almost certainly continue to be a conspicuous and lively presence in the cities of China.

Notes

1. "Interview with Xue Muqiao," The China Business Review, no. 4 (July-August 1981), p. 60.

2. It should be noted that while there is an extensive literature on illegal or semi-legal private enterprise in the Soviet Union and Eastern Europe, studies of legal private activity are much rarer. On the "second economy" see, for example, A. Katsenelinboigen, "Coloured Markets in the Soviet Union," Soviet Studies 29 (January 1977), pp. 62-85; Istvan Kemeny, "The Unregistered Economy in Hungary," Soviet Studies 34 (July 1982), pp. 349-366; and Gregory Grossman, "The 'Second Economy' of the USSR," Problems of Communism 26 (September-October 1977), pp. 25-40. This literature has produced some very detailed typologies of the spectrum of non-planned market activity. The most detailed study (in English) of legal private activity in Eastern Europe is the work of Anders Aslund, cited below. As Aslund points out in a 1984 article, in the course of his own research, "Only one general article has been found which attempts to answer some of the basic questions on the functioning of entrepreneurs in a Soviet-type economy. It was written by two Hungarian sociologists, A. Hegedus and M. Markus." Unfortunately this author has not been able to locate the article he mentions (published in English in 1979 in the Hungarian journal Acta Oeconomica 22.) See Anders Aslund, "The Functioning of Private Enterprise in Poland," Soviet Studies 36 (July 1984), p. 427.

3. Although as an Asian country Vietnam would be a useful example to explore, few scholarly studies exist in English comparable to those available for Eastern Europe. Journalistic reports indicate, however, that Vietnam has recently been experimenting with more liberal policies toward private trade, for reasons related to those which led to the adoption of similar policies in China.

4. Policies in the USSR, however, appear to be changing dramatically along with other economic reforms instituted recently, many of which follow the "Chinese model."

5. Marton Tardos, "The Increasing Role and Ambivalent Reception of Small Enterprises in Hungary," Journal of Comparative Economics, 7 (1983), pp. 277-78. See also Peter T. Knight, Economic Reform in Socialist Countries: The Experiences of China, Hungary, Romania, and Yugoslavia, World Bank Staff Working Papers Number 579, Management and Development Series Number 6 (Washington: The World Bank, 1983), pp. 66-7. Kemeny, in "The Unregistered Economy" (p. 359) also subscribes to the description of the Hungarian economy as "a dual economy, a mixed economy in which the small independent entrepreneurs play a role of far greater importance than in the developed capitalist countries or in other socialist states ..."

6. Tardos, "Small Enterprises in Hungary,", p. 278.

7. Ibid., pp. 279, 281.

8. Ibid., pp. 281-82.

9. Janos Kornai, "Comments on the Present State and the Prospects of the Hungarian Economic Reform," in Contradictions and Dilemmas: Studies onthe Socialist Economy and Society, Janos Kornai (Cambridge, Mass.: The MIT Press, 1986), p. 101.

10. Tardos, "Small Enterprises in Hungary," pp. 283-84.

11. Ibid., p. 287.

12. Kemeny, "The Unregistered Economy in Hungary, p. 358.

13. Kornai, "Comments," p. 102.

14. Ibid., pp. 105-6.

15. See Knight, "Economic Reform", pp. 87-88.

16. See Christopher Prout, Market Socialism in Yugoslavia, (Oxford: Oxford University Press, 1985), p. 136.

17. Ibid., pp. 136-37. For a more detailed discussion of this debate, see Deborah D. Milenkovitch, Plan and Market in Yugoslav Economic Thought (New Haven: Yale University Press, 1971), especially pp. 254-58.

18. Quoted in ibid., p. 140.

19. Ibid., p. 140.

20. Ibid., p. 142.

21. Chang Qin, "Guanyu Nansilafu de Xiao Jingji" (On Yugoslavia's Small-Scale Economy), Jingjixue Dongtai (Trends in Economics), no. 10 (1983), p. 46. For a more positive view, see Gong (?) Zhimei, "Nansilafu de Siren Jingji yu Jiuye" (Yugoslavia's Private Sector and Employment), Jingji Lilun yu Jingji Guanli (Economic Theory and Economic Management), no. 5 (1983), pp. 31-35. On post-1978 Chinese interpretations of Eastern European economies, see Nina P. Halpern, "Learning from Abroad: Chinese Views of the East European Economic Experience, January 1977-June 1981," Modern China 11 (January 1985), pp. 77-109. According to Halpern (pp. 103-4), "... no serious study of East European reforms appeared until after the decision to carry out reforms in China had been made ... In other words, articles on East Europe could only confirm the correctness of China's major policy decisions. They could not contribute to any

real evaluation or questioning of them." Such articles, Halpern concludes, "were clearly intended to justify policy, not to analyze it."

22. Most of the information in this and the following section on the GDR comes from Anders Aslund, Private Enterprise in Eastern Europe: The Non-Agricultural Private Sector in Poland and the GDR, 1945-83 (London: MacMillan, 1985).

23. See Bronislaw Misztal, "The Petite Bourgeoisie in Socialist Society," in The Petite Bourgeoisie: Comparative Studies of the Uneasy Stratum, Frank Bechhofer and Brian Elliott, ed. (London: Macmillan, 1981), p. 93.

24. Aslund, Private Enterprise, p. 10.

25. Aslund, Private Enterprise, p. 31.

26. Ibid., p. 32.

27. Misztal, p. 94.

28. Aslund, p. 43.

29. Ibid., p. 215.

30. Quoted in Aslund, p. 47.

31. Ibid., pp. 10-13.

32. Misztal, p. 96.

33. Ibid., p. 102.

34. Aslun, pp. 209-10, referring to the period of the New Economic Policy (NEP) adopted in the Soviet Union in the 1920s, which after the stringent period of "war communism", reintroduced private trade for a short time.

35. Ibid., p. 216.

36. Ibid., pp. 217-18.

37. Ibid., p. 125.

38. Ibid., p. 127.

39. Ibid., p. 141.

40. Ibid., p. 10.

41. Ibid., p. 11.

42. Ibid., p. 17. For a discussion of issues connected with the illegal private sector, see Phillip J. Bryson, The Consumer Under Socialist Planning: The East German Case (New York: Praeger, 1984), especially Chapter 5, "The Complementary Economy: Trade Beyond Party and Plan in East Germany" (pp. 76-95).

43. Ibid., p. 208.

44. Ibid., p. 211.

45. Alec Nove, The Economics of Feasible Socialism (London: George Allen & Unwin, 1983), p. 110.

46. For a concise review of the theoretical literature, especially in geography, see Chapter 8 of D. K. Forbes, The Geography of Underdevelopment: A Critical Survey (London: Croom Helm, 1984). An excellent collection of both theoretical and empirical studies is contained in Ray Bromley and Chris Gerry, eds., Casual Work and Poverty in Third World Cities (New York: John Wiley, 1979).

47. See Forbes, pp. 165-66.

48. The basic approaches to the problem have been the dualist informal/formal sector model pioneered by Keith Hart in 1971 and promoted by the such agencies as the International Labour Organization (ILO) and the World Bank (and later heavily criticized on theoretical and practical grounds); and various neo-Marxist approaches which can be loosely gathered under the label "modes of production", focusing on the experience of petty commodity producers in the development process. For one critical review of the "informal sector" concept, see Caroline Moser, "Informal Sector or Petty Commodity Production: Dualism or Dependence in Urban Development," World Development 6 (1978), pp. 1041-64. For a particularly incisive discussion of the modes of production approach, see Aidan Foster-Carter, "The Modes of Production Controversy," New Left Review, no. 107, pp. 47-77.

49. For a useful summary, see Warwick Armstrong and T.G. McGee, Theatres of Accumulation: Studies in Asian and Latin Merican Urbanization (London: Methuen, 1985), pp. 52-55.

50. Jianshi You zhongguo Tese de Shuhuizhuyi (Build Socialism with Chinese Characteristics) (Beijing: Renmin Chubanshe, 1984), p. 75.

51. Armstrong and McGee, p. 55.

52. Frank Bechhofer and Brian Elliott, "Petty Property: the Survival of a Moral Economy," in The Petite Bourgeoisie: Comparative Studies of the Uneasy Stratum, ed. Frank Bechhofer and Brian Elliott (London: Macmillan, 1981), p. 183.

53. Ibid., p. 187.

54. Ibid., pp. 184-85.

55. Adi Sasono, "People's Economy," Development: Seeds of Change, no. 3 (1986), p. 69.

56. Vittorio Capecchi and Adele Pesce, "Supposing Diversity Were a Value," Development: Seeds of Change, no. 2 (1985), p. 34.

57. For a fascinating description of this process, see Frances W. Moulder, Japan, China, and the Modern World Economy (Cambridge: Cambridge University Press, 1977).

58. Every sentence in this paragraph can be either disputed or supported on the basis of a voluminous literature, both Chinese and foreign. It is unfortunately beyond the scope of this study to delve into these controversies, or even to provide adequate bibliographic references.

59. Indeed, in the past such comparisons tended to hold up China as a positive alternative model of third-world development.

60. One should aso note the growing role of international capital in China's development process, which seems to be pushing China even closer to the path of other developing economies.

61. Jianshe You Zhongguo Tese de Shehuizhuyi (Building Socialism With Chinese Features) (Beijing: Renmin Chubanshe, 1984), pp. 7-10.

62. Xinhua News Bulletin (Hong Kong), 24 January 1985, p. 29. The figure given for year-end 1985 was 17 million, including urban and rural enterprises.

63. See State Statistical Bureau, Statistical Yearbook of China 1985 (Hong Kong: Economic Information and Agency, 1985), p. 213.

64. "Operational Mechanism Reform Depends on Reform of the System of Ownership," translated in SWB, 17 January 1986, p. FE/8159/C1/4. For the Chinese original see Jingji Ribao (Economic Daily), 4 January 1986.

65. Guowuyuan Bangongting Diaoyanshi (State Council General Office Survey Research Office), Geti Jingji Diaocha yu Yanjiu (Individual Economy Surveys and Research) (Beijing: Jingji Kexue Chubanshe, 1986), p.4. See also Louise de Rosario, "The Private Dilemma," Far Eastern Economic Review, 20 November 1986, pp. 68-9.

66. Kang Deguan, "Shehuizhui Shehui Zhong de Geti Jingji yu Geti Laodong Fangshi Wenti" (Individual Economy and the Individual Mode of Labour in Socialist Society), Maoyi Jingji (Trade Economics) (Beijing: Zhongguo Renmin Daxue) no. 12 (1981), p. 48.

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