Regional Handbooks of Economic Development

The China Handbook

Prospects onto the 21st Century

The China Handbook

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The China Handbook

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Editor's Note

The China Handbook, the first volume in a series entitled *Regional Handbooks of Economic Development: Prospects onto the 21st Century*, provides an overview of China's development path in the second half of the 20th century, with particular emphasis on the period since 1978–commonly referred to in this book as the "reform period." Chapters focus on China's key economic programs and policies as well as China's handling of important trade and investment relationships with neighboring countries. In common with other volumes in the series, *The China Handbook* is designed to address complex development issues in a manner accessible to academic and non-academic audiences alike. It is our special aim to make China's economic development understandable to college-level students.

The contents of this book were chosen with the help of two advisers, who are listed on page iii. Topics range from current trends in agricultural and industrial policy to the impact market-oriented economic reforms have had on labor, social welfare, and education. Contributors were asked to focus on issues affecting China's modernization efforts in the 1990s, and to consider how China's current economic initiatives may play out in the years to come. The volume opens with two chapters that set China's economic conditions and initiatives within their historical context.

Chapters are presented under four main headings: History; Regional Context; Political Economy and Development Policy; Society and Human Dimensions of Development.

Each chapter has been prepared by a recognized expert in the field and consists of an essay on the topic, a further reading list with annotations, and, in many cases, supplementary materials such as graphs and tables. In-text references to sources listed in "Further Reading" are given as author's last name followed by date; sources not listed in "Further Reading" are given more complete details within the text.

The volume closes with a series of appendices, including a detailed chronology of events; a glossary of terms; biographical entries on key personalities; government administration charts; and an annotated bibliography of secondary sources.

The editor would like to thank the advisers and contributors for their cooperation and efforts. Special thanks belong to Michael Jeffers for his advice in organizing the Regional Handbook series, and especially to Paul Schellinger and Marc Blecher for their invaluable help at every stage of this project.

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History

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Chapter One

The Maoist Period, 1949–78: Mobilizational Collectivism, Primitive Accumulation, and Industrialization

Victor D. Lippit

When the People's Republic of China was founded on October 1, 1949, following decades of civil war and Japanese invasion, it inherited an economy in shambles. Modern industrial output, which had grown from a minuscule base by an average of 9.4% yearly between 1912 and 1936, showed virtually no growth between 1935 and 1949. Production in most industries had declined sharply from previous peak levels, hyperinflation had wiped out the value of the previous regime's currency, and most transactions were being carried out on a barter basis. In 1949, close to 90% of the population lived in rural areas, and some 65% of national income was generated in the agricultural sector.

By 1978, the communist regime had created a diversified industrial structure, institutionalized the accumulation process through a system of central planning modeled on the Soviet system as well as a uniquely Chinese system of collectivized agriculture, and laid the groundwork for the exceptionally rapid economic growth that was to characterize the reform era that began in 1978. Nevertheless, much of the 1949–78 period was marked by dramatic conflict within the leadership over economic and social policy, and by massive social upheavals. During the last two decades of the period, rural and urban incomes were stagnant, breaking the socialist promise of prosperity for working people, and by 1978 the extreme politicization of everyday life had created a high degree of cynicism among ordinary people. Economic growth was sustained by extremely high levels of capital accumulation, a consequence of the growing inefficiency of the economic system. Because each unit of incremental output required rising levels of investment, the resources available for raising consumption levels were limited severely.

Thus, the period between 1949 and 1978 was a mixed one for the Chinese economy and society. The key divide within the Communist Party leadership lay between Mao and his allies on the one hand, driven by their visionary belief in the virtually unlimited potential for economic construction created by socialist relations of production, and a more pragmatic group of officials on the other, ready to tailor their vision of socialist construction and society to China's limited production capabilities. From 1949 until the mid-1950s, these two groups generally worked in harmony, but from 1955 until Mao's death in September 1976, Chinese policy was marked by an alternating pattern of extreme mobilizational collectivism followed by periods of moderation that were needed to help the economy and society recover from the visionary policies pursued by Mao.

During the period of rehabilitation and reconstruction between 1949 and 1952, output in both industry and agriculture increased rapidly from the sharply

depressed 1949 levels; production output in 1952 surpassed previous peak levels in nearly every industry. To avoid the artificial upward bias entailed in basing long-term growth calculations on the 1949 levels of output, most assessments of the Maoist period take 1952 as the base year. Moreover, although Mao died in 1976, the policies of his later years generally were kept in place from 1976 to 1978 (after which the era of reform ushered in a sharp break); thus, the entire period from 1952 to 1978 is referred to in this chapter as the "Maoist period." Table 1.1 indicates the output of major products during both the recovery and Maoist periods.

Table 1.1 also reflects the overwhelming emphasis placed on capital goods production and the relatively slow growth in consumer goods production throughout the Maoist period. Moreover, since the population growth rate over the entire period averaged about 2.2%, and since food was the major consumption item for both rural and urban households throughout the period, the slow growth in agricultural production placed a sharp constraint on the government's ability to improve living standards. Also noteworthy is the fact that gains in agricultural production were minimal despite massive increases in the production of such agricultural inputs as chemical fertilizers and power-driven machinery (see Table 1.1). These inputs were introduced primarily in the 1970s, and the failure of agricultural output to respond commensurately is an indicator of the extent to which the institutional organization of agriculture limited their effectiveness.

Land Reform and the Collectivization of Agriculture

During the civil war period (1946–49), the communist leadership never disputed the desirability of collectivization as an ultimate goal. The strong popular support the party was able to generate among the mass of the peasantry, however, relied first and foremost on its commitment to land reform under the "land to the tiller" policy. Land reform was carried out first in the extensive areas that came under communist rule during the course of the civil war, and in the remainder of the country between 1950 and 1952. Some 40% to 44% of the agricultural land area was redistributed under the land reform, which sought to distribute land holdings equally within each village. The commercial and industrial enterprises owned by rich peasants and small landlords initially were protected from expropriation.

Building on the tradition of mutual aid among peasant households, rural cadres sought to encourage the establishment of new mutual aid teams even before the land reform was completed. The mutual aid teams typically consisted of some seven or eight households that pooled their labor during the busy agricultural seasons and sometimes combined their assets to purchase production equipment. By 1952, 40% of China's rural households were organized in mutual aid teams, up from 11% in 1950; the proportion reached 58% in 1954.

The initial strategy for collectivization envisioned a gradual, voluntary process that would extend over 15 years. Collectivization was based on the Marxist principle that the relations of production (reflected in collectivization) could only be transformed successfully as the development of the productive forces permitted. In the Chinese context of the early 1950s, this was understood to mean that collectivization could only proceed as the industrial sector developed the capacity to provide the machinery and other inputs that would give large-scale units in agriculture decisive productivity advantages. Moreover, the anticipated higher productivity in collective units was expected to ensure peasant support for collectivization by tying collectivization to steadily rising living standards for the members of collective units. Mao himself insisted that at least 90% of collective members should experience higher incomes during their first year of participation.

A variety of economic problems encountered during the early 1950s, however, led Mao to break with this consensus strategy.

The slow growth of agricultural production, which threatened the regime's ambitious plans for rapid industrialization, was compounded by the fact that the poor-peasant beneficiaries of the land reform, preferring to retain output for their own consumption, were much less willing to market their output than were expropriated landlords and rich peasants. Although as much as 50% of agricultural output was marketed in the 1920s and 1930s, by 1953 the marketing ratio had fallen to 28%. This problem was exacerbated by the slow growth rates of crop production in 1953 and 1954 (1.6% and 2.3%, respectively).

Concurrently, China launched its First Five-Year Plan in 1953; investment rose 84% from 1952 levels and the urban population grew by 6 million people or 8.4%. To ensure urban supplies, the state launched a "planned purchase and supply" system in November 1953, requiring peasants to sell agricultural products to the state at below-market prices. This created a further disincentive to increase agricultural production. Since the peasants had a strong preference for increasing their food consumption, the state would have had to raise prices significantly to increase the marketed share of agricultural output, and this in turn would have required a drastic cutback in the regime's industrialization plans. Faced with the contradiction posed by the imbalance between industrial and agricultural growth, Mao sought to resolve the crisis by dramatically accelerating the timetable for collectivization.

In a famous speech in July 1955, Mao criticized the rural cadres for failing to respond sufficiently to peasant demands for collectivization. He argued (incorrectly) that, following the land reform, class polarization had reemerged in the countryside as the poor-peasant beneficiaries of the land reform, lacking the ability to purchase farm implements and other inputs, increasingly were forced to sell or mortgage their newly acquired land to rich peasants. More importantly, he took issue with the Communist Party's Marxist position that collectivization should only proceed in step with the development of the industrial sector's capacity to provide the needed inputs. Instead, he envisioned new relations of production that would release enormous productive potential in the countryside. Given Mao's great prestige as the leader of the revolution, and fearful of being criticized, rural cadres responded by greatly accelerating the collectivization process and violating the principle of voluntary participation.

In 1954, only 2% of the peasant households were members of the elementary agricultural producer cooperatives (APCs). Based on the natural village or hamlet, the elementary APCs averaged about 30 households and were considered "semi-socialist" because members retained ownership rights over the land and equipment they contributed, and also because the net income was distributed partly on the basis of labor performed and partly on the basis of land and capital contributions. In June 1955, 14% of rural households were members of elementary APCs; following Mao's July speech, that percentage climbed to 59%.

The summer of 1955 marked a turning point not only in agricultural policy but in the overall Chinese approach to economic development. On the one hand, the majority of party leaders advocated a "rationalistic" and pragmatic approach to development, including the use of material incentives (mixed with moral appeals), an emphasis on the development of expertise, and a cautious approach to collectivization. On the other hand, Mao focused on the almost limitless possibilities of collective mass action while turning a blind eye to the negative consequences in his pursuit of rapid socialist modernization.

The pressures to accelerate collectivization continued into 1956. The large return to capital (about 50%) in the elementary APCs limited incentives by reducing the amount available for distribution according to labor performed, and the fully socialist, advanced (as opposed to elementary) APCs were preferred for ideological reasons in any event. Averaging about 200 households, advanced APCs combined several elementary APCs and eliminated the return to

property. The proportion of peasant households belonging to advanced APCs increased from 4% at the end of 1955 to 88% at the end of 1956 and 100% by April 1958.

By compressing the collectivization process into such a short span of time, Mao effectively abandoned the principle of voluntary participation and recanted his promise that collectivization would bring shared prosperity. However, by placing the administrative control of agricultural produce in the hands of the state, he was able to assure a much higher proportion of agricultural sales than the peasantry would have made voluntarily. This allowed China to sustain a more rapid pace of investment and industrialization than otherwise would have been possible. In other words, industrialization in the Maoist era was sustained in large measure by a process of "primitive accumulation," based on the extraction of surplus from the agricultural sector.

The Socialization of Industry and the First Five-Year Plan

Under Mao's leadership, the Communist Party adopted in 1947 a strategy for socialist transition. Seeking to isolate the large landlords and the "bureaucratic capitalists" (large-scale capitalists who enjoyed their position as a result of state support), Mao explicitly acknowledged the need to retain a capitalist sector in the economy for a lengthy period of time, and during the 1950–53 period small-scale private businesses actually increased in number. Meanwhile, the Kuomintang regime had seized Japanese businesses at the end of World War II with the ultimate intention of privatizing them; with the resumption of the civil war, however, the conditions for privatization were never realized. Thus, the communist regime inherited a large state sector when it assumed control of the country; 45% of industrial output was under direct or indirect state control in 1949 and 63% was under state control by the end of 1950.

In 1951, the "three-anti" campaign was launched, the first of many campaigns that targeted the abuse of power in the state bureaucracy. Concerned with the legacy of bureaucratic rule in China, Mao sought throughout his leadership to limit actual and potential abuses of power by the bureaucracy. Ironically, Mao staunchly opposed permitting the market to play a central role in the economic and political process based on his belief that marketization inevitably would lead to capitalist restoration. Mao's alternative strategy for restricting the role of bureaucracy was to decentralize the state administration by pushing power downward in the bureaucracy to lower-level units, including many units created especially for this purpose. Rural collectives and later the people's communes are representative of this strategy. The "mass line" instructed cadres to formulate policies based on their understanding of the peasants' and workers' wishes, to test these policies in practice, and to modify them on the basis of their outcomes. Administrative decentralization, however, proved unable to eliminate the problems of bureaucracy and often contradicted the goals of the central planning system. As a result, the leadership alternately sought to centralize and decentralize the state administration throughout the Maoist period.

In 1952, the leadership launched the "five-anti" movement against private enterprises making "excessive profits." The campaign successfully brought the private sector under state control. Many private enterprises were converted into joint state-private enterprises, wherein equal proportions of net profit were allocated to the private entrepreneur, taxes, reinvestment, and worker welfare. By the end of 1952, only 17.1% of industrial output was produced and sold entirely within the private sector. Beginning in 1956 the return to the original owners was reduced to 5% of the capital invested, a payment which persisted until the practice was abandoned altogether during the Cultural Revolution in 1967.

From 1953 to 1957, China launched its First Five-Year Plan. Owing partially to the 156 large-scale projects provided by the Soviet Union, industrial production

advanced strongly. From 1952 to 1957, the output of rolled steel increased from 1.1 million metric tonnes to 4.5 million; coal output increased from 64.7 million metric tonnes to 130 million; the output of electric power increased from 7.3 billion kilowatts to 19.3 billion; and the output of cement increased from 2.9 million tonnes to 6.9 million. Despite collectivization, however, the growth of agricultural output lagged far behind that of industry, and the leadership became increasingly aware that rapid industrial growth could not be sustained without measures to improve agricultural performance. To restore incentives in agriculture the regime was compelled in 1957 to ease pressures on the collectives to deliver their output to the state.

The Great Leap Forward and the Organization of the People's Communes

The imbalance between agricultural and industrial growth was reflected in the difficulty the state encountered in increasing grain procurements even as the urban population was growing rapidly (the population in the cities rose from 71.6 million in 1952 to 92 million in 1957 and 130 million in 1960). The imbalance was also reflected in the agricultural sector's inability to provide adequate supplies of raw materials for light industry (mainly consumer goods) during the First Five-Year Plan. During that time, the agricultural sector supplied some 80% to 85% of the raw materials for light industry, and the sluggish growth of agriculture was reflected in the severe underutilization of capacity in the consumer goods sector. Moreover, since China's exports during the same period primarily consisted of processed and unprocessed agricultural products, and since over 90% of China's imports were raw materials and intermediate products, the problems in agriculture also constrained industrial performance via their impact on the foreign trade sector.

In an effort to stimulate the performance of agriculture and light industry, the communist regime pursued a path of administrative decentralization in 1957, handing over extensive decision-making powers to the provinces and localities, and cut back on required grain sales to the state. Nevertheless, the imbalance between industry and agriculture persisted, as did the problem of procuring adequate grain supplies for the cities. Moreover, as peasants flocked to the cities, urban unemployment emerged as a major problem. In order to solve these problems, Mao envisioned a great movement of mass mobilization in which new forms of social organization would provide the basis for overcoming the production constraints imposed by nature. The movement became known as the Great Leap Forward (GLF), and under it China sought to double national income in a short period of time.

The Great Leap Forward spanned the years 1958–60, during which China sought to maintain rapid growth in the modern industrial sector while mobilizing people in rural areas to increase production using labor-intensive techniques. This technological dualism became known in China as "walking on two legs." The leadership hoped that the underemployed labor in the countryside could produce inputs for the agricultural sector without drawing resources away from the modern industrial sector. The most notable example was the movement to create tens of thousands of "backyard steel furnaces" in rural areas during 1958. Labor-intensive capital construction also was used to create agricultural infrastructure, especially in irrigation and other water conservancy projects. The mobilization of this labor was facilitated by the ongoing institutional transformation of the countryside, which culminated in the merging of the advanced agricultural producer cooperatives into people's communes.

During the winter of 1957–58, a number of advanced APCs joined forces to work on large-scale water conservancy projects. The resulting organization, called a people's commune, received high praise from Mao in the spring of 1958. Soon after, a movement was launched to reorganize the entire

countryside into people's communes; by September 1958, 98% of rural households had joined. The commune represented a dramatic new form of social organization: initially comprising some 5,000 households and integrating village government into itself, the average commune became an all-encompassing economic, political, and social unit, responsible for capital construction, everyday farming activities, small-scale rural industry, education, health care, and the full range of local government activities.

At first, the communes were expected to speed the transition to communism in the countryside. Communal cafeterias provided meals free of charge, and a range of services from haircuts to communal baths also were provided to members. Adopting the communist principle of distribution according to need required the leadership to break with the socialist principle of distribution according to labor performed. Material incentives were replaced by the enormous social pressures associated with mobilizational collectivism. Local cadres organized the peasants in military fashion to march into the fields at daybreak to "attack" nature. The entire country was exhorted to work hard for a few years to provide the basis for a new era of collective prosperity.

The communes thus represented an institutional response to the same forces generating the Great Leap Forward. Communes were encouraged to initiate local industries to provide farm inputs, and the socialization of household tasks like cooking enabled women to participate more fully in agricultural activities while men spent an increasing share of their time laboring in the new industries.

Owing to a lack of planning and experimentation, both the commune system and the GLF quickly encountered great difficulties. The output of the new industries was typically so poor in quality that it proved unusable–steel manufactured at low temperatures in the small-scale furnaces proved extremely brittle and snapped readily when subject to stress or cold temperatures. Moreover, the diversion of labor from agriculture led to declines in output, and the transport system, which delivered inputs to rural industries and distributed their output, was often unavailable for transporting agricultural inputs or harvested produce. Many of the water conservancy projects proved counterproductive as irrigation channels were created without adequate provisions for drainage, leaving heavy alkaline residues on the land and resulting in sharp declines in land productivity. The communal dining halls were highly unpopular since the cooking of the evening meal depleted the supply of wood for heating households.

Meanwhile, the extreme politicization of everyday life placed overwhelming pressure on local cadres to report large increases in output that grossly misrepresented actual circumstances. This breakdown of the national statistical system deprived the leadership in Beijing of an accurate means of assessing agricultural output. As a consequence, required sales of grain to the state were increased sharply, ushering in a period of malnutrition and even starvation in the countryside. Despite the bumper harvest in 1958, which was assured prior to the formation of the communes, grain production fell sharply from 200 million tonnes in that year to 170 million tonnes in 1959 and 143.5 million tonnes in 1960. Scholars estimate that between 17 million and 23 million Chinese lost their lives during the ensuing famine.

However, organizational adjustments enabled the communes to survive the calamity of the Great Leap Forward. The regime ceased to promote communal dining halls and the military-style approach to production in 1959, and in the ensuing years China sought to decentralize the responsibility for production while introducing material incentives. The communes were reduced in size to an average of about 3,000 households and came to have four distinct levels, each with different responsibilities. The commune level was designated the administrative center, with the chairman and other leading cadres appointed by the party. The commune level typically administered a middle school, a clinic or small hospital, and a few larger industrial enterprises. Production brigades, consisting of the administrative vil-

lages and averaging about 200 households (formerly these were the advanced APCs) were responsible for administering elementary schools; additionally, most rural industrial enterprises and smaller-scale infrastructure projects were organized at this level. Production teams, consisting of the natural villages and averaging about 30 households (formerly the elementary APCs) were responsible for everyday agricultural production and income distribution; sometimes these production teams ran very small enterprises. Finally, households were allocated small private plots for their own use, although administrative interference sometimes curtailed their autonomy over these land parcels.

The Post-Leap Retrenchment

Because reserve stocks of grain cushioned the 1959 collapse in agricultural production, the worst impact on food supplies did not occur until 1960–61. To combat the ensuing crisis, production teams increasingly turned over the responsibility for agricultural production to individual households, although the formal structure of the commune was maintained. The regime recentralized control over industry, closing down the weaker rural enterprises while retaining and consolidating the stronger ones. The party leadership reaffirmed the importance of material incentives, Mao's mobilizational approach to economic activity fell into disfavor, and Mao himself lost the power to direct national policy (he later complained that Deng Xiaoping and other party leaders had even stopped consulting him).

Industrial production did not fare as poorly as agricultural production during the Great Leap Forward and its aftermath. In the first place, one of the favorable conditions for launching the Great Leap Forward was the expectation that several of the major industrial projects aided by the Soviet Union would reach their productive capacity by the end of the decade. Second, the commitment to developing heavy industry and to rapid industrialization was unquestioned among all factions of the Chinese leadership, and thus resources were always available for this purpose, no matter the consequences to other areas of China's economy. Finally, the failure of Mao's mobilizational approach to development made it increasingly apparent that raising agricultural productivity would require a significant increase in the inputs provided by the industrial sector. Thus, by 1965 China was producing more than nine times as much chemical fertilizer as it had in 1957.

During the Great Leap Forward, industrial production increased from an index of 100 in 1957 to 181 in 1960, yet the increase was unsustainable. Production collapsed to an index of 105 in 1961, stabilized at 111 the following year, and then increased to a new high of 199 in 1965. The excessive accumulation rates of the GLF, which reached 43.8% of national income in 1959, were scaled back to 10.4% in 1962 before increasing again, allowing for improvements in consumption. Agricultural production, which had increased from an index of 100 in 1957 to 103 in 1958, fell to 69 in 1961 and then recovered more slowly to 101 in 1965. Not until 1978 did the per capita production of grain in China surpass the 1957 level on a sustained basis.

The period of recovery from 1961 to 1965 was marked by the recentralization of economic control, by the restoration of planning and the gathering of statistical information that planning required, and by renewed attention to material incentives and living standards. As the recovery gathered steam, the production teams became the main unit of village income distribution (production teams were reorganized so that members received income based on the work-points they earned for performing different production tasks). China's unique efforts to develop rural industry were not abandoned, although rural enterprises were established and supported more selectively; by the mid-1960s these were producing a sizable share of China's cement and chemical fertilizer output. Meanwhile, rural infrastructure projects were designed more carefully, and thus large-scale projects typically were

restricted to the winter off-season.

The Cultural Revolution

During the period of recovery, Mao grew increasingly dissatisfied with the marginalized role he had been forced to assume following the collapse of the GLF. Additionally, Mao was disturbed by the emergence of a technology oriented and rationalistically organized society in which the pursuit of individual benefit superseded ideology as the primary motivating force behind economic and social activity. Having lost his dominant role in the party, Mao was compelled to find some outside agency to voice his concerns. He found such a force in the red guards, the millions of activist youths who, with his encouragement, launched the Great Proletarian Cultural Revolution in 1966.

Proponents of the Cultural Revolution sought to transform China's institutions, national consciousness, and social values. They reasoned that, although the economic base of Chinese society had been socialized as a result of the 1949 revolution, the institutional superstructure and patterns of national thought had yet to be transformed accordingly. If the latter were not transformed, they argued, the result might be the restoration of capitalism. Thus, the Cultural Revolution was viewed by its proponents as a struggle between two roads, one leading to socialism and the other to capitalism.

The active phase of the Cultural Revolution lasted from 1966 to 1969 and was marked by a wide range of institutional innovations. The principal slogans included "serve the people" and "fight self," encouraging those in authority to refrain from using their positions for personal benefit. The "two participations" encouraged workers to participate in management and managers to join in physical work. The May 7th Cadre Schools encouraged intellectual workers, ranging from school teachers to senior bureaucrats, to take part in six-month rural retreats, during which participants divided their time between physical labor and academic study of the socialist classics. Also during the Cultural Revolution efforts were made to improve educational opportunities for peasants, and a system was instituted under which a few production team members received basic health care training for six months to a year; these "barefoot doctors" treated simple ailments and assisted with family planning services. Urban doctors, meanwhile, came under intense pressure to offer their health care services in the countryside, and to train peasants to be "barefoot doctors."

Unfortunately, the Cultural Revolution also resulted in widespread persecution. Jiang Qing, Mao's wife, and the three other members of the "Gang of Four" headed a regime that exerted intense pressure and ordered physical attacks on those who opposed the Cultural Revolution. The Gang of Four set themselves up as a small coterie to approve the ideas that could be disseminated throughout the nation. Furthermore, they distinguished between "socialist-roaders" (themselves) and "capitalist-roaders," including all those who sought material comforts, the preservation of individual liberties, and the preservation of China's traditional culture, and who supported the use of examinations in education, the use of foreign technology, and the use of markets and other rationalistic means of economic management.

Those who opposed the mainstream views often were harassed, attacked, dispatched to the countryside for "re-education," and sometimes killed. Traditional forms of education were scorned: middle school students often were sent to participate in physical labor, universities were closed for several years until a new curriculum could be formed, and graduate education was eliminated in favor of an apprenticeship system.

Additionally, many party leaders and other cadres who had committed their lives to the Communist Revolution came under severe attack during this period (1966–76). Deng Xiaoping, who later would become China's paramount leader, was paraded around Beijing wearing a dunce cap and exiled to the countryside for a prolonged

period of re-education; Deng's son suffered paralysis as a result of being pushed out of a fourth-story window. Everyday life was politicized in the extreme, and workers were forced to attend innumerable meetings. Meanwhile, the leadership still refused to provide material incentives for farmers and state industrial workers, living standards stagnated in both urban and rural areas, and a deep cynicism prevailed throughout much of China. Although Hua Guofeng, Mao's successor, attempted to remedy some of the worst abuses of the Cultural Revolution in the two years following Mao's death, not until 1978 did Deng Xiaoping marshal support within the party leadership and break sharply with the Maoist social vision, leading China into the era of reform.

Despite the turmoil that attended the Cultural Revolution, especially during its early phase, output in industry and agriculture continued to rise. This increase was sustained by high rates of capital accumulation, which rose from an average of 24.1% of national income in the 1966–69 period to 33.0% in the 1970–78 period. In urban areas, despite declining housing space and real wages (which declined from an index of 93 in 1965 to 86 in 1976 [1957=100] in the state sector) household incomes increased somewhat as the labor force participation rate (i.e., the proportion of household members who held jobs) rose and the dependency ratio (i.e., the number of unemployed household members per employed member) declined. In the countryside, commune members were forced to use and pay for the massive new inputs provided by the industrial sector even when the sharply higher production costs reduced the value of the work-points they earned. Between 1957 and 1975, real peasant per capita consumption rose by only 22.2%, a figure heavily skewed in favor of suburban communes, and in 1975 fully 42.7% of the nation's production brigades were categorized as poor, where collective incomes averaged less than 50 *yuan* per capita.

Although the gross value of industrial output grew at an average rate of 10.4% between 1965 and 1975, and the gross value of agricultural output grew at an average rate of 4.0% over the same period, the rising share of investment in national income and the 2.4% population growth rate limited gains in per capita consumption. A period of relative moderation followed on the heels of the active phase of the Cultural Revolution as factional fighting was brought to a halt by army intervention, universities were reopened, and the leadership began to explore foreign trade opportunities (major contracts were signed for the import of entire chemical fertilizer plants during 1972–73). Furthermore, after treating its population problems with benign neglect during most of the Maoist era–and allowing population to grow by an average rate of 2.6% during the 1960s–China initiated a major family planning effort beginning in 1970; the natural growth rate of the population fell from 25.8 per thousand in that year to 15.7 per thousand in 1975 and 11.6 per thousand in 1979. Nevertheless, the inefficiencies associated with central planning and the collective organization of agriculture required that the leadership continue to rely on extremely high rates of capital accumulation to sustain industrialization, limiting the possibilities for improvement in popular living standards.

Self-Reliance and Egalitarianism in the Maoist Era

While Mao never claimed to understand macroeconomic policy issues, he did have a vision of the type of society he wished to create in China. Among the values at the core of his vision were self-reliance and equality, and the Maoist era was characterized by wide-ranging efforts to secure these sometimes conflicting goals.

Self-reliance was pursued at every level of Chinese society, often making a virtue of necessity. At the national level, the Western boycott of China led by the United States in the 1950s and 1960s, and the Soviet Union's decisive break with China in 1960, forced China to rely primarily on its own resources. Although China did receive tech-

nical assistance and some US$430 million in loans from the Soviet Union in the 1950s, as early as 1956 it became a net exporter to the Soviet Union, remaining so until its debt was repaid in 1965 (in this way China helped finance Soviet development during the period). While China's inability and disinclination to participate in international markets certainly slowed its development, Mao's policy of self-reliance contributed to the development of a relatively diversified industrial base. In an irony that parallels many others of the Maoist era, the policy of national self-reliance, although it limited economic performance during the Maoist era itself, helped lay the groundwork for more successful economic performance during the ensuing era of reform.

In the industrial sector as well, the value of self-reliance helped make a virtue of necessity. Central planning is inherently inefficient because central planners have no way to gauge the real or opportunity cost of their decisions. This problem is magnified in less-developed countries like China, which have limited ability to communicate precise information to the center. One way to address this problem is to increase vertical integration–to require enterprises to assume responsibility for producing or acquiring as many of their own inputs as possible. Another is to increase regional or provincial responsibility for local planning–to make planning more manageable by decentralizing its administration. China followed both of these paths during the Maoist era, with varying degrees of commitment.

While both of these solutions make the process of planning more manageable, neither can address its efficiency costs; there is no reason to assume a priori that having factories produce more of their own parts or acquire them locally will result in least-cost solutions. Moreover, as centrally planned economies grow in size and complexity, their efficiency problems tend to grow disproportionately. Thus, during China's First Five-Year Plan, when investment accounted for 24.2% of material output, industrial output grew at an average annual rate of 15.8%, indicating that $1.53 was required for each dollar of incremental output. By contrast, from 1970 to 1977 the investment rate reached 32.6% of material product and industrial output grew by an average of 9.7% annually, indicating that $3.26 had to be spent for each dollar of incremental output. Basing growth on rising investment levels limits the resources that can be used for consumption.

In agriculture, Mao's goal of self-reliance was reflected in the management of the commune system. Each commune, for example, was expected to be a self-reliant grain producer. Even communes located in regions that were unsuited for grain production were forced to comply, raising production costs and limiting the gains that might have come from specialization and exchange. Thus, the emphasis placed on self-reliance resulted in significant efficiency costs throughout the economy.

The Maoist regime also promoted egalitarianism with great fervor, but unfortunately its emphasis on self-reliance had serious costs in this regard as well. Although a high degree of equality was attained within most villages and cities, the majority of communes in remote locations were disadvantaged severely, while those located in suburban areas or those that enjoyed favorable growing conditions and ready access to transportation were able to achieve much higher levels of prosperity. Moreover, despite the stagnation in real wages, the falling dependency ratio and rising labor force participation rates in urban households led to a growing gap between urban and rural households. The household registration system prevented peasants from migrating to urban areas or even to more prosperous rural regions, further causing urban-rural and inter-regional income gaps to widen.

Public policy during the Maoist era addressed these problems in a number of ways, but always with limited success. Holding down real wages in urban areas, which included a prolonged period of freezing workers' promotions, represented one attempt. Efforts to increase rural access to medical care through the barefoot doctor system and traveling medical teams during

the Cultural Revolution represented another. Further, the central government budget was used to shift resources from the established industrial bases in the coastal and northeastern regions to the new industrial cities in the interior. Nevertheless, urban-rural and intra-rural disparities in income continued to grow.

Conclusion

Mao's vision of a new China incorporated such traditional socialist values as equality, solidarity, and overall social welfare, but it was limited by his commitment to a Leninist vanguard party, precluding genuine worker and peasant control over their own institutions. Mao was well aware of the potential for bureaucratic abuse created by the centralized state (he observed this tendency in the Soviet Union), but critical of the drive for personal material gain that he saw at the heart of capitalism; as such he was unwilling to sanction the use of the market as a way of checking bureaucratic power and accelerating economic development. Although he was well able to articulate the critical internal contradictions in Chinese society, Mao had a limited understanding of macroeconomic issues, and, like Marx and Lenin before him, tended to view the economy as a unit of administration; in so doing, he tended to marginalize or misconstrue the issues of incentives, initiative, innovation, and efficiency.

For Mao, initiative and innovation involved coming up with imaginative solutions to pressing problems rather than a systematic effort to develop new products and processes. Moreover, Mao believed that linking personal prosperity with the general good could substitute for material incentives. According to Mao's vision, the development of new institutions like the people's communes would release the vast productive power of the masses, and the decentralization of bureaucratic control would make it possible both to check bureaucratic power and to mobilize the masses for economic construction. One of the core meanings of the term "mobilize" is "to make ready for war," and Mao's thinking about economic efforts as parallel to preparation for military conflict is an indicator of the limitations of his ideas on economic policy.

While a broad consensus within the party leadership underlay economic policy during the 1949–55 period, and a consensus remained throughout the Maoist period to pursue rapid industrialization/modernization at all costs, a sharp split emerged in 1955 that separated Mao from most of his colleagues concerning the appropriate means for economic construction and the type of society that China would create in the process. After 1955 the Maoist era was marked by ongoing struggles over Mao's efforts to mobilize the masses and use socialist consciousness and relations of production as the basis for economic construction. Mao's periodic success in shaping economic policy according to his social vision typically resulted in acute economic and social problems, opening the way for a period of moderation until Mao could regather his strength. This occurred following the "socialist high-tide of collectivization" in 1956, the Great Leap Forward of 1958–60 and the active phase of the Cultural Revolution in 1966–69.

The performance of the Chinese economy over the entire Maoist period was mixed. Industrial output grew at an average annual rate of 11.2% over the entire 1952–78 period, and China was able to create a diversified industrial structure, which included the capital goods industry. Concurrently, except for the production calamity associated with the Great Leap Forward, China was able to raise land productivity, normally the first consideration for a poor country with a growing population and little reclaimable agricultural land. Also in the area of agriculture, the commune system permitted the mobilization of labor in the winter to create an extensive supportive infrastructure, ranging from roads and terraces to major water conservation projects; from 1970 to 1978 more than 100 million people worked on such projects each winter. The development of industry, meanwhile, made possible massive increases in agricul-

tural inputs; the total horsepower of agricultural machinery increased from 1.7 million horsepower in 1957 to 14.9 million in 1965, and from 101.7 million in 1975 to 181.9 million in 1979.

Against these gains, a number of serious deficiencies in both industry and agriculture emerged. As the Chinese economy grew and became more complex, decreasing efficiency was inevitable, and this was manifest in the rising investment rates needed to sustain growth, a phenomenon which in turn sharply curtailed the possibilities of raising living standards. Between 1957 and the mid-1970s wage rates stagnated, and the state prohibited promotions within the established wage-grade system for long intervals. Moreover–Maoist rhetoric to the contrary notwithstanding–Chinese enterprises were not marked by active worker control or participation in management. Several factors were responsible for this.

First, within a planned economy a given enterprise must be subordinated to the overall requirements of the plan; the party secretary's role as the most powerful individual within the enterprise assured that party dictates would at all times receive priority (the same arrangement existed in the communes). During the Cultural Revolution, numerous instances were reported in the press of workers volunteering to work on their days off or to work overtime; these typically were portrayed as the result of a heightened social consciousness. The reality underlying such "voluntary" activity was more complex. Since enterprises provided housing, leave permits, work assignments, and even rights to buy consumer goods in short supply, workers could not afford to alienate their superiors. Moreover, anyone displaying "bad character" could be made the object of group criticism. When an enterprise official needed extra help to meet an assigned target, he or she usually could count on the support of a few opportunists eager to curry favor. The remaining workers would then be forced to go along to avoid being singled out as bad characters.

Subject to limited improvements in living standards, forced to attend innumerable meetings, and highly conscious of their own manipulation, China's workers became increasingly cynical and alienated by the end of the Maoist era. In one of the great ironies of the Maoist era, workers deprived of material benefits tended to become more concerned with material goods. From the perspective of the peasantry, workers were regarded as a privileged group; from the workers' perspective, the state imposed unfair burdens on their lives.

Similar to the performance of the industrial sector during the Maoist era, that of the agricultural sector was mixed. While agricultural output grew by 3.2% per year between 1952 and 1978, grain production grew by 2.4% per year, just ahead of the 2.2% population growth rate. Moreover, following the dislocations associated with the Great Leap Forward, grain output per capita did not recover its 1957 level on a sustained basis until 1978. Since the agricultural land area remained roughly constant during the Maoist era at approximately 250 million acres (the limited area of reclaimed land nearly offset the land lost to industrial construction, transport, and housing), and since the population grew from 575 million to 963 million during this period (1952 to 1978), the strong growth in land productivity played a critical role in meeting the nation's food needs. It should be noted, however, that improvements in living standards rely essentially on labor productivity, and that agricultural labor productivity during the Maoist era appears to have declined, limiting possibilities for raising consumption standards in the countryside.

Given the massive increases in agricultural inputs, the extensive infrastructure developed under the communes, and the leadership's belief that the communes would make "rational" land use planning possible, the lack of increase in labor productivity must be explained. The leadership's failure to raise labor productivity was the result of several policy errors that limited agricultural performance and that ultimately may have been responsible for the 1982 decision to dismantle the commune system.

Some will argue that any system of col-

lective agriculture is bound to fail. While these critics may argue correctly, the failure of China's commune system does not prove the point; rather, the system's failure was a consequence of the serious policy errors that undermined it. First, the communes were set up hastily in 1958 before their various features could be tested adequately, including the incentive system and the mechanism for distributing income. Second, the principles of voluntary participation and mutual benefit were violated; peasants were forced to join the communes regardless of their preferences and the impact on their incomes. Third, communes were not allowed to realize the benefits of specialization and exchange: all, for example, were compelled to grow grain regardless of their climate. Fourth, commune members were forced to buy high-priced machinery and other inputs while selling their output at low, state-set prices; thus, commune members were not the beneficiaries of rising output. Finally, commune leaders were selected by and responsible to the party hierarchy, not their members. It is impossible to gauge how the communes and their members would have fared in a market environment and under a different policy regime.

When considering the impact of the communes on the course of Chinese development, their role in rural industrialization also must be taken into account. China's rural, small-scale enterprises were developed largely under the commune system. Able to take advantage of the surplus labor that existed in the agricultural sector, of local resources too limited to be attractive to large-scale state enterprises, and of the ready availability of agricultural inputs, the commune enterprises often made good economic sense. In addition to these advantages, they often were able to provide the agricultural sector with inputs and consumer goods or, benefiting from their lower cost structure, to serve as subcontractors to state-owned firms. In 1979, enterprises at the commune and brigade levels employed 28 million people out of a total rural labor force of some 300 million. Converted into the collectively-owned township and village enterprises (TVEs) after the dissolution of the communes in 1982, these became the most dynamic sector of the economy during the reform era, with employment increasing to some 129 million by 1995.

The early development of the commune industries during the Maoist era–and their subsequent flourishing in the era of reform–parallels the experience of the Chinese economy as a whole. During the Maoist era, numerous preconditions were established for a flourishing economy, but the internal contradictions of Maoist policy forestalled the appearance of that prosperity. Primary education essentially was universalized, and secondary education was developing rapidly prior to the setback it received during the Cultural Revolution. The rural infrastructure established under the commune system, as well as the rapid growth of industries providing agricultural inputs, created the preconditions for a flourishing agriculture once market incentives and a shift of control to the direct producer came into play. The diversified industrial base created during the Maoist era contributed to the subsequent rapid growth once market reforms and international trade and investment opportunities were introduced.

With the exception of the crisis period that followed the collapse of the Great Leap Forward, consumption patterns generally were maintained at low subsistence levels throughout the Maoist era, freeing resources for investment. In this sense the entire Maoist era may be referred to as a period of "primitive accumulation" in which capital construction proceeded not on the basis of the reinvested profits or surplus that a mature capitalism characteristically provides, but on the basis of using the power of the state to redirect resources from the initial creators of the surplus to the state or to others who are prepared to use it for investment rather than consumption. From this perspective, the Maoist era in China failed to usher in an era of general prosperity. It did, however, create the conditions for the ensuing reform policies to do just that.

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Victor D. Lippit is Professor of Economics at the University of California, Riverside. His books include *Land Reform and Economic Development in China: A Study of Institutional Change and Development Finance* (1974); *The Economic Development of China* (1987); and *Radical Political Economy: Explorations in Alternative Economic Analysis* (1996). He is also coeditor, with Mark Selden, of *The Transition to Socialism in China* (1982).

Table 1.1: China's Macroeconomic Performance: Main Indicators

Item	*Unit*	*1949*	*1952*	*1978*	*Annual Average Growth Rate (%)* 1952–78
Gross output of industry	billion *yuan*	14.0	34.3	423.1	11.2
Gross output of agriculture	billion *yuan*	32.6	48.4	145.9	3.2
Major industrial products					
coal	million tons	32.4	66.5	617.8	9.0
crude oil	million tons	0.1	0.4	104.1	23.4
electricity	billion kwh	4.3	7.3	256.6	14.7
crude steel	million tons	0.2	1.4	31.8	12.9
cement	million tons	0.7	2.9	65.2	12.8
chemical fertilizer	thousand tons	6	39	8,693	23.1
cloth	billion meters	1.9	3.8	11.0	4.2
bicycles	thousands	14	80	8,540	19.7
Major farm products					
grain	million tons	113.2	163.9	304.8	2.4
cotton	million tons	0.4	1.3	2.2	2.0
oil-bearing crops	million tons	2.3	3.7	4.6	0.8
hogs	millions	57.8	89.9	301.3	4.8
Farm machinery in use					
large and medium tractors	thousands		0.6	557	30.0
hand tractors	millions			1.4	
power-driven drainage and irrigation machines	million hp		0.1	65.6	27.1

Source: Lippitt, 1987: 106–107

Chapter Two

The Dengist Period: The Triumphs and Crises of Structural Reform, 1979 to the Present

Marc Blecher

The commonplace term for the vast changes that have taken place in China since 1978 is "reform"–an appropriate term insofar as it refers to aspects of the *process* by which these transformations have occurred: change has been pursued gradually and without violence. But "reform" can hardly capture the depth and breadth of the *substance* of China's many changes. Since 1978 China has not merely been tinkering with, perfecting, or toning down Maoist state socialism. Something far more thoroughgoing is afoot. The country has been seeking, often successfully, to excise, root and branch, many of the basic elements of its Maoist polity, economy, society, and political culture. It has questioned almost everything that went before. Its leaders and people have sought to create unprecedented new forms of political authority, economic activity, social organization, and cultural expression. If, as Theda Skocpol argues, revolution is defined as a "basic transformation of a society's state and class structures," then what China has been undergoing is no mere "reform," but rather something that would more aptly be called a peaceful revolution. Another, perhaps less oxymoronic, term to capture China's gradual and peaceful process toward "basic transformation of ... state and class structures" is "structural reform."

Dismantlement of Maoist Leadership and Ideology

At the Third Plenum of the Eleventh Party Central Committee in December 1978, Deng Xiaoping headed a group of leaders who were critical of Maoist radicalism. The Dengists returned to key positions of leadership in the Politburo and its Standing Committee. Modernization replaced class struggle as the main ideological principle guiding politics and policy. Radical advances in rural collectivization were rejected, and the importance of private plots and markets was reaffirmed. Premier and Party Chairman Hua Guofeng's grandiose plans for rapid development of heavy industry were scrapped in favor of a more balanced and measured approach. In short, the way was now cleared for China's program of "reform"–in truth, a riptide of profound restructuring–in pursuit of socialist modernization.

The Dengists had their work cut out for them. They had to root out Maoist ideology, politics, policies, and institutions, and then face the more challenging task of replacing

them with something new. Since political change was a precondition of change in ideology, policy, and institutions, and since the political arena was what the Dengists knew best, they began there. Mere days after the Third Plenum adjourned, Wang Dongxing, Mao's personal secretary and a leading protagonist in the political intrigues of the Cultural Revolution, was removed from his key position as head of the Party Central Committee General Office. At the Fourth Plenum in September 1979, many prominent leaders associated with Mao were demoted, while future top leaders Zhao Ziyang and Hu Yaobang were promoted. Deng, preferring to lead from a position less vulnerable than the very top, and hoping to encourage his older colleagues to relinquish their power, shrewdly contented himself with the Chair of the Military Advisory Commission (a post that would prove indispensable in the maelstrom of 1989) and a vice-premiership. Nonetheless, he now was clearly the key figure in Chinese politics and remained so for the better part of the next two decades.

The leadership changes, which continued through 1980, were accomplished not only with surprising swiftness and decisiveness; the Dengists, themselves having been victimized during the Cultural Revolution, now sought not revenge but rather a novel approach that would spare both themselves and their enemies any repeat of their previous agonies, and that also would help normalize and stabilize Chinese politics. Thus, although Mao's chosen successor Hua Guofeng was subjected to serious criticism within the party, no large-scale campaign was launched against him or most other surviving Maoists. Hua's move was presented as a resignation, after which he remained a vice-chair of the Party Central Committee as well as a member of the powerful Politburo Standing Committee. Yet this new approach to fallen leaders would be pursued inconsistently. Hua still was subjected to humiliating attacks at closed party meetings. Moreover, in late 1980 and early 1981 the "Gang of Four" were subjected to a televised trial, their final public condemnation.

The Dengists next turned their attention to ideology. A momentous move already had been made at the Third Plenum, when class struggle was displaced in favor of socialist modernization as the guiding principle of Chinese socialism. Toward the end of that year, Vice-Premier Ye Jianying criticized the Cultural Revolution as having been a calamity. Thornier by far was the question of Mao. More than even a predominant leader, Mao was a founder of the People's Republic of China, the author of its central body of doctrine, and a cult figure. It would not be possible to break with the leadership, policies or institutions of the Maoist period without rethinking Mao's own writing and leadership. Yet reconceptualizing Mao's political ideas had obvious hazards and thus was managed with the greatest sensitivity. After extended preparation and intra-party debate as well as several trial balloons, in June 1981 the Chinese Communist Party (CCP) issued a major document titled "On Questions of Party History," which criticized Mao's political ideas in relation to the Cultural Revolution. The document claims that

> the history of the "cultural revolution" has proved that Comrade Mao Zedong's principal theses for initiating this revolution conformed neither to Marxism-Leninism nor to Chinese reality. They represent an entirely erroneous appraisal of the prevailing class relations and political situation in the Party and state.

The document berated Mao for becoming "arrogant" and elitist during the Cultural Revolution, when he "divorced himself from practice and the masses, acted more and more arbitrarily and subjectively, and increasingly put himself above the Central Committee." Nevertheless, Mao still was hailed:

> Comrade Mao Zedong was a great Marxist and a great proletarian revolutionary, strategist and theorist ... .[I]f we judge his activities as a whole, his contributions to the Chinese Revolution far outweigh his

> mistakes. His merits are primary and his errors secondary.

Similarly to its handling of Hua's dismissal, the Dengist leadership chose to deal with political enemies differently than its predecessors had. Although the balanced assessment contained in "On Questions of Party History" no doubt was motivated by a political desire to maintain as broad a base of support as possible during a very risky break from the past, it was nevertheless a refreshing change from the manichaean, polemically-charged approach to problems that has stifled serious debate on key issues of the socialist experience in China.

The Struggle for Structural Reform

As difficult as it was to attack Maoist leaders and ideology while still maintaining a power base, the Dengists soon faced the far more intractable task of replacing Maoist policies and institutions with new ones. The vast state bureaucracy, state-owned industry, and guarantees of a decent livelihood to state officials, functionaries, and workers, proved resilient and resistant to change. Part of the difficulty would turn out to be structural. Reform in many areas proved exceedingly complex, conjuring up old problems (like developmental imbalances and inequalities) while creating new ones (such as powerful inflationary pressures and rampant corruption). Moreover, the Dengists found it difficult to discern or arrive at suitable alternatives for many Maoist-period policies and institutions. For example, competitive markets, which were to replace state planning, often did not develop smoothly or naturally. No substitute for state-owned industry appeared readily on the horizon, and no means could easily be found to replace state-subsidized housing, education, health care, or retirement income. The Dengist leadership also encountered serious political obstacles in reforming Maoist-period policies and institutions. Many very senior and powerful leaders had deep reservations about the rise of the market, the social and economic inequalities, and the Westernization of Chinese society and culture that the reforms brought in tow. In addition, many ordinary people who felt abandoned by their government found numerous ways to make their opposition felt. For example, farmers often refused to plant the crops the state demanded, or to sell their produce to the state at the prices being offered. Often they resorted to violent protest, including staging uprisings and even killing and maiming tax collectors. Industry began to suffer strikes and slowdowns. Two waves of public protest took place on a national scale, one of which mesmerized the world. The reformers' many struggles to restructure Chinese politics, society, economy, and culture will be addressed throughout the remainder of this chapter and book.

Early Initiatives, Mixed Results: 1979–83

In the glow of the Third Plenum, 1979 dawned with optimism about reform, both in China and abroad. However, Chinese society and its political and economic institutions held surprises in store for both supporters and opponents of the Dengist initiatives. The country's initial four years of grappling with structural reform would produce almost unimaginably deep changes in the countryside. It was all the more startling, then, that during this same period changes in politics and the industrial economy–arenas thought to be most directly under central control–would encounter such unanticipated obstacles and equivocal results.

Rural Reform on the Fast Track

Perhaps the most remarkable early success of structural reform took place in the countryside. Beginning in early 1978, some farmers and local officials, particularly those in poor areas, spontaneously began experimenting with contractual relationships. Under the most extreme form, individual households contracted for use of collective property (usually a piece of land, but also

possibly a fish pond, orchard, tractor, or workshop) in return for a payment to the collective in cash or kind. The farmers could keep all profits and were responsible for their losses. This new contractual relationship came to be known as a "responsibility system."

These developments on the ground took place in advance of any policy initiatives from the state. From the top leadership to the villages, the country was divided over the prospect of converting collective agriculture to a contracting system. Thus, Deng Xiaoping–who in 1962 had supported rural contracting with his famous words, "it doesn't matter if the cat is black or white, so long as it catches mice"–had difficulty moving his plan forward. Even the triumphantly reformist Third Plenum of late 1978 forbade responsibility systems. Yet household responsibility systems quickly gained momentum in many poor areas. A fascinating political dynamic of popular initiative and political influence now was set in motion. Step by step, villagers and local leaders in various parts of the country moved ahead in developing contracting systems that were more and more comprehensive and individualistic. Each time they were crossing the boundaries of state policy. Not surprisingly, the results they achieved were usually significant increases in production. Party and government leaders sympathetic to radical rural reform would visit or receive favorable reports about these places, and use these villages' experiences to support their arguments for further reform. In early 1982, they pronounced that the household responsibility system was not only permissible, but consistent with socialism. The political dynamic now shifted. What had been a broad, spontaneous movement toward decollectivization now became a program that leadership actively propagated, and, in many places, even forced on unwilling farmers and recalcitrant leaders (in ways not so dissimilar from those used during the Maoist period to implement radical policies, such as the "high tide" of collectivization in 1956). By mid-1982, almost three quarters of production teams engaged in household contracting, and the process was virtually complete by the end of 1983.

Two concomitants to this process also moved relatively quickly. First, as decollectivization proceeded, many restrictions on private commerce gradually were lifted. Markets sprang back to life, and the state pulled back its regulation of them. Where it used to set prices for a wide range of goods, now it mostly set maximum prices only (with the exception of some key commodities such as grain and cotton). Even the number of goods with state-set maxima declined gradually. Second, the rural economy was depoliticized. Class labels like "capitalist" and "rich peasant" were abolished so that enterprising and prosperous contractors would not be stigmatized. Economic and political administration were separated institutionally. As the responsibility systems proliferated, farmers began to gain (and communes began to lose) control of concrete production issues such as cropping choices and labor allocation. China's fourth constitution, adopted in late 1982, spoke of town and township governments rather than people's communes, which had been created in 1958 in order, as the slogan had it, to put "politics in command" of agriculture. By the end of 1984, communes were a thing of the past (except in Tibet, where they continued a while longer).

The swift pace of rural institutional reform surprised many people, including its supporters in the top levels of leadership. Yet if they concluded from this success that further transformation of other arenas of China's polity and economy would be a downhill process, they were in for another surprise. Structural reform of politics and the industrial economy has proven far more difficult, and in some cases intractable. Indeed, efforts in this direction have encountered frequent setbacks and have provoked crises that have threatened the very existence of the People's Republic. These processes and dangers are ongoing.

Abortive Political Reform

The Third Plenum began with a simple, bold, and momentous move: it relegated class struggle to the back burner, thereby accomplishing several goals related to political and economic restructuring. The party was attempting to reassure all Chinese people, no matter what their class background, that they would no longer suffer ferocious attacks based on their position in a society that had been overturned three decades before. The change would help create the conditions for social and, therefore, political stability by disposing of an issue that had rent China asunder. The leadership also had its eye on the rise of a new class of entrepreneurs who would help develop China's prospective market-based economy once class struggle no longer was wielded against them. Abandonment of politicized class categories would also help encourage intellectuals, whom the state would need in order to implement its plans for China's technological modernization. The Dengists shrewdly made this simple but profound move, and it met with instant and very broad, if quiet, approval.

However, neither this stunning move nor the rapid changes in central leadership involved structural reform of the political system, such as the introduction of rights, party and government reorganization, and transformations in state-society relations, including the rise of elections and of interest organization and politics. Indeed, the changes that eventually took place hardly merit the simpler term "reform." Although minor changes were made to top-level party organization, the basic ideological and institutional features of the Maoist-period Leninist political system were preserved. The Communist Party continued to dominate political life, firmly resisting the rise of alternative organizations, citizens' political rights, and new forms of state-society relations.

At the outset of the Dengist period, such an outcome was not readily apparent, however. Even before the landmark Third Plenum, structural political reform reached the political agenda with a loud thump. In mid-November 1978, citizens put up posters on a Beijing street corner just blocks from Zhongnanhai, the residence of the top party leadership. While at first they merely expressed support for Deng Xiaoping, within a week they were raising larger issues of democracy and citizens' rights. "Democracy Wall" became the site of lively political debate among Chinese and, even more novel, between Chinese and foreigners. Some Chinese visiting the wall went so far as to ply Western journalists with questions to ask Deng. Soon some participants, having outgrown the format of the big character poster, moved on to editing and publishing newsletters and magazines, and to forming independent political organizations. Initially, Deng supported the concept of Democracy Wall; after all, many of the writers were directing their critiques against his Maoist opponents. But Deng and most of his colleagues soon began to worry that a good deal of this public discourse, as well as the concept of independent publications and organizations, would erode party authority. By the spring of 1979, Deng emphasized the "four cardinal principles": the socialist road, the dictatorship of the proletariat, the leadership of the party, and Marxism-Leninism-Mao Zedong Thought. Moreover, he referred to some of the people engaged in the pro-democracy activities as "bad elements"–an epithet echoing one of the class-like categories that the leadership had set about abolishing. When a Beijing zoo electrician named Wei Jingsheng criticized Deng's turnabout, he soon found himself sentenced to 15 years in prison. Freedom of speech and association, a potentially crucial element in structural political reform, and certainly an element that could stimulate other changes, was once again removed from the political agenda.

The Dengist leadership was not prepared for such basic transformations of the political system; even its initiatives to make far less momentous political modifications met with very mixed results. As has been shown already, the leadership was equivocal in

normalizing the treatment of top leaders ousted from their positions, an issue with serious implications for the manner in which China's leaders conduct themselves while in office. In 1982, the Twelfth Party Congress took up two major questions. The first involved the transfer of top positions from the elderly patriarchs of the Chinese Revolution to the next generation. A new body–the Party Central Advisory Commission–was created to give aged leaders an honorific way to relinquish their direct power and to serve instead as experienced advisers only. Most, however, were unwilling to step down so soon, and they joined only on the condition that the powers of the new Commission be strengthened. (During the 1989 events, the Commission would become a central player in the decision to crack down.) Second, to reduce the power of any one individual at the very top of the party, the Twelfth Party Congress revitalized the office of the central party secretariat to replace the posts of chair and vice-chair of the Central Committee. The General Secretary, it stipulated, was to be constrained by other members of the Secretariat. Then, at the National People's Congress at the end of the year, socialist China's fourth constitution was adopted, emphasizing rationalized institutions and leadership processes that would be regulated by law. The new constitution spelled out and separated more clearly the functions of various bodies, imposed term limits on top leadership positions, and prohibited leaders from holding concurrent posts. But, as soon became clear, none of these measures significantly altered the power of China's political elite or the way the government conducted its business.

The Conundrums of Industrial Reform

Like political and rural economic reform, industrial reform was the subject of lively debate and activity at the outset of the Dengist period. There were good reasons to expect swift, deep changes. After all, a broad consensus existed among the top leadership, most experts on the economy, and many enterprise managers that China's system of state ownership, planning, and management of industry was technically backward, deeply inefficient, and unable to meet the developmental and consumption needs of the country. Moreover, the fact that industry was too tightly under central political control could perhaps be turned into a powerful lever for change by a reform-minded leadership now exercising that control. Such expectations, however, would prove naïve. Industrial reform quickly revealed itself to be an area of protracted conflict among leaders, experts, and middle-level officials, a quagmire of rhythmic policy reversals, and a roller-coaster of economic outcomes, all climaxing, ultimately, in the 1989 protests that threatened to topple the People's Republic.

Efforts to reform the industrial sector got off to a rousing start in 1979, when a major conference of experts from various state agencies and think tanks met in the prosperous city of Wuxi. Participants criticized China's economic planning system for being overly centralized, and for not allowing enterprises enough space to take initiative. Basing economic planning on political criteria, the participants argued, often had led to the wild pursuit of unrealistic goals, wreaking havoc in the process. Over time central planning had produced structural irrationalities such as excessive emphasis on heavy industry and a price system that did not help producers and consumers make rational choices. Instead, they insisted, planning should be grounded firmly in market-like realities such as actual economic capacities, scarcities, and preferences–i.e., in supply and demand. In fact, state planning should not only simulate markets; it should allow them to develop to complement this new, more realistic planning process.

The ink was barely dry on this marketizing manifesto when sparks began to fly. Critics, led by the prominent Vice-Premier Chen Yun, had a different vision, emphasizing "readjustment" of planning over the development of markets. They worried, presciently, that marketization would cause inflation, since market prices of many commodities, especially essential goods such as

foodstuffs, clothing, and many basic industrial and agricultural inputs, surely would be much higher than the low prices set by the state. Critics also feared that the more goods moved outside of planned state channels the more difficult it would be for the state to extract the revenues it needed, thus potentially bringing about financial deficits–a concern that also would come true. They sought mainly to change planning priorities to pay more attention to agriculture and light industry and less to heavy industry. In addition, critics wanted to raise standards of living by allocating a greater share of the country's output to consumption and a lesser share to investment. This meant scaling back the grandiose production plans championed by Hua Guofeng. These critics were open to the possibility that certain peripheral sectors of the economy, such as petty retail trade in nonessential goods, could be conducted on markets. However, they fully opposed the brand of planning that simulated markets, not to mention marketization itself.

The critics initially won out. During the second half of 1980, anxiety about the rise of the Solidarity movement in Poland reinforced the position of those taking a political and ideological hard line. At a central party work conference in late 1980, economic reform was put on hold. In the spring of 1981, experiments with reform of enterprises were halted, while a campaign against "bourgeois liberalization" linked economics and politics by emphasizing the pernicious political and social effects of markets. This tendency–called, strangely, both "conservative" and "leftist" because it sought to conserve key features of the Maoist-period political and economic institutions now that they were shorn of their radical, mobilizational thrust–dominated through the end of 1982.

If the years 1979–82 evinced a cycle of advance and then defeat of industrial reform, a similar movement and countermovement took place, this time at a more rapid pace, within the single year of 1983. After several years of political quiescence and dramatically successful rural reform, the Dengist leaders were able to go on the offensive early in the year. Party General Secretary Hu Yaobang understood the important role that intellectuals would have to play in economic reform. For example, many supporters of the early, shelved marketizing reform plans had been social scientists. They would need reassurance from the highest levels of leadership to encourage them to participate actively in the politically contentious reform process, especially in light of the closing of Democracy Wall. Toward this end, Hu offered his public support for a reformulation of Marxism, put forward by leading intellectuals, that focused on its early, humanistic phase (as opposed to its later, more overt emphasis on class conflict, from which intellectuals had suffered during the Maoist period).

Concurrently, in June 1983 Premier Zhao Ziyang argued that prices, taxes, and credit had major roles to play in regulating the economy. To reduce further the political control of enterprises, Zhao also introduced a new system of state revenue collection. Instead of requiring enterprises to turn over most of their profits to the ministries that supervised them, they now were required to pay taxes according to a standardized, predictable scale; after-tax profits would be theirs to keep. This clever stroke was intended to increase the power of enterprises vis-à-vis the planning agencies in a way that allayed the conservatives' fears that reform would cause state budget deficits. However, ideologically conservative leaders struck back, launching a campaign against the "spiritual pollution" produced by market society and Westernization that lasted through the end of the year. In response, Zhao Ziyang threatened to resign his office, stating that the campaign was hurting foreign investment.

Thus, five years after the landmark Third Plenum of 1978 announced the dawn of a radically new political direction for China, the country had been through two cycles of political and economic reform offensives, each met by strong counteroffensives from leaders bent on preserving tight political control and major elements of economic

planning. Moreover, political disagreements aside, some of the complexities and contradictions of industrial and macroeconomic reform were coming into focus: e.g., the rise of markets versus the dangers of inflation and deficits; the state's need for intellectuals to develop and deploy their skills versus its concern about political liberalization; and the widely shared desire to attract foreign capital versus the concern about the corrosive effects of Western consumer culture. At the end of this period, while the controversies and conundrums of reform had not been resolved, at least the battle lines had been drawn, the boundaries of permissible disagreement had been highlighted, and the structural obstacles had become increasingly clear.

The Rhythms of Market Stalinism

1984–89

In other words, by early 1984 the outlines of Dengist China's political economy were emerging. Over the subsequent decade and more, China's reform policies would score many achievements, engender significant problems, and cause massive crises. As these emerged and came–often painfully–to their successive political resolutions, the political and economic systems' boundaries crystallized. The process took on a two-dimensional rhythm. First, the space for structural economic reform was widened incrementally. Subsequent to each advance came criticism and a temporary stall, followed by yet another advance. Second, the upbeat/downbeat of economic reform stimulated another rhythm wherein demands for deep political change emerged and were met by crackdowns. Dengist China was lurching tortuously toward a new system that may be described as "market Stalinism" (White, 1993: 256; Blecher, 1997: 116n).

The year 1984 dawned with economic reformers back on the offensive. Politically, "leftism" came under attack in the official press. The party made efforts to promote a phalanx of younger leaders. A more permissive atmosphere of cultural expression was tolerated, including images of Western dress and artistic nudes–precisely the images that the anti-spiritual pollution campaign had attacked. By the end of the year, the value of Marxism itself was openly questioned in the flagship *People's Daily*. In the economic realm, the year began with Deng's highly publicized trip to the Special Economic Zones (SEZs) of south China. Soon after, the factory director responsibility system was promoted as a way to induce enterprises to follow market logic rather than the political wishes of their party committees. In addition, enterprises were given expanded autonomy. In the countryside, land contracts were extended from less than 5 years to 15. Then, amid the euphoria of a bumper harvest, a three-decade-old system of quota grain sales was scheduled to be replaced by a new system of contracts negotiated freely between farmers and the state. In finance, enterprises now were allowed to keep under their own control 70% of their depreciation funds. The system of paying taxes rather than remitting profits was further rationalized. In the area of production planning, the number of products subject to state control was reduced drastically. Enterprises were permitted to make their own decisions regarding all above-quota output, and to negotiate prices for disposing of it. Many of these policies were advanced by a group of young economists who, profoundly influenced by their experience with structural reforms in the countryside, emphasized microeconomic factors (price reform, marketization, and enterprise reform) over the primacy the conservatives placed on macroeconomic issues such as planning balances, investment rates, state finance, and inflation.

Precisely those macroeconomic issues would now be called to the forefront, however, not so much by critics of reform as by the economy itself. Starting in late 1984, double-digit inflation appeared, alarming leaders and ordinary Chinese who had not experienced it for three decades. Many of them linked rising prices not with the abstract issues of structural economic reform but with something more palpable: