

READJUSTMENT AND REFORM IN THE CHINESE ECONOMY: A COMPARISON OF THE POST-MAO AND POST-GREAT LEAP FORWARD PERIODS

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INTRODUCTION

CHINA is said to be presently going through a period of “readjusting, restructuring, consolidating, and improving” in the context of the long-term strategy of modernization. One is reminded of a similar expression of policy objectives during the first half of the 1960s, emphasizing “readjustment, consolidation, filling out, and raising standards.” Obviously the outward differences in these two slogans are minor.

Is the similarity in expression a mere coincidence or a reflection of a genuine similarity in the underlying conditions? This question has not escaped the Chinese themselves, and it or its variations have been addressed to in Chinese newspapers and journals. Most of the articles concerned, however, are not based on detailed studies, though their appearance itself deserves mentioning. The policies of the early 1960s are examined in this paper for the purpose of helping better understand what is happening in China today.

I. ECONOMIC BACKGROUND AND DEFINITIONS

The policy of “readjustment, reform, filling out, and raising standards” announced in the early 1960 was formally adopted at the Ninth Plenum of the Eighth Central Committee of the Chinese Communist Party (CCP) convened in January 1961. The CCP Central Committee declared the termination of the Great Leap Forward policy which had been pursued since 1958, and made it clear that various negative consequences, resulting from the Great Leap were to be rectified through adoption of a different set of economic policies. The new policy remained in effect until the end of 1965. It was meant to be continued in the Third Five-Year Plan period commencing in 1966, but was disrupted by the commencement of the Cultural Revolution.

There are a number of different interpretations regarding the similarities in the policy that is in effect now. My own position is that the period of readjustment should be seen as covering the entire post-Mao period, i.e., from the arrest of the Gang of Four in October 1976 up until today. It should be noted that this interpretation differs from the official Chinese definition.

The policy of “readjusting, restructuring, consolidating, and improving” was announced at the National People’s Congress in June 1979, after having in effect been decided upon at the Third Plenum of the Eleventh CCP Central Committee

at the end of 1978. Thus in Chinese terms this policy is said to have been introduced at the beginning of 1979. To accept this Chinese version, however, is to obstruct our understanding of reality: It would lead us to mistakenly think that readjustment means the bankruptcy of the earlier Ten-Year Economic Development Plan (put forth in 1978) and a rectification of its aftereffects. Perhaps it should also be mentioned that I interpret the expression "consolidation of the readjustment policy" announced at the National People's Congress in February 1981 (following the difficulties of readjustment experienced in 1979 and 1980) to involve no major change in orientation.

Recently, the Great Leap Forward has sometimes been referred to as the "indigenous" Leap Forward, while the Ten-Year Plan of 1978 has been called the "imported" Leap Forward. This identification does not seem to serve any useful purpose. The Great Leap Forward period should rather be compared to the decade of the Cultural Revolution, not to the early period of the Ten-Year Plan.

Let us now review the economic conditions prevailing in 1960, when the Great Leap Forward began to show signs of failure, and those prevailing when the Gang of Four were arrested.

First of all, the year 1960 was marked by a very poor harvest. Food production declined to approximately 150 million tons in 1960 from 185 million tons in 1957 and 200 million tons in 1958. Until 1960 China had exported food in order to acquire necessary foreign exchange to pay for imported industrial goods, but after 1960 China was forced to spend a considerable amount of its foreign reserves to meet the nation's food needs instead.

Industrial production in 1960 had not quite come to a halt, but there were ominous signs here and there. Equipment overworked or mistakenly used was fast deteriorating, and even basic industrial safety was in danger. Disruption of the economic planning system threw various undertakings off balance, and in some cases enterprises did not even know where to get production materials. Medium- and small-scale industries were having troubles due to rising costs and deteriorating quality of their products, and most of them were doomed to totally disappear from the economic scene.

The breakdown of the system of economic planning and statistics deprived the government of the means of formulating meaningful economic policies. The well-known case of backyard furnaces and small-sized blast furnaces consuming large amounts of coal and iron ore, while the large-scale steel mills at Anshan and Wuhan, unable to secure enough materials, were forced to curb production, was only one of many such problems. The government, not knowing what was happening in its own economy, began emphasizing the need for "investigation" and Chinese newspapers and journals in the latter half of 1960 were full of articles dealing with "investigation."

In the agricultural sector, farmers had a low work morale, following the failure of the people's communes. They had little inclination even to go out to the fields to work. By harvest time in the summer of 1960 it was clear that the situation was at its worst. *Renmin ribao* repeatedly appealed—largely in vain—to farmers to undertake the harvest in time, and party members and armed forces had to

be mobilized for harvesting purposes. Out of an urban population of approximately 130 million, 20 million were to be sent back to the rural areas. This national campaign was carried out in part to ameliorate the food shortage in cities and to curb overt unemployment there following business failures among medium- and small-scale enterprises. It is still difficult to evaluate to what extent the campaign was effective.

The year 1960 also saw a worsening of Sino-Soviet relations. Russian engineers were leaving China en masse by autumn, reportedly even carrying with them the blue prints of plants under construction. The Chinese economy as of 1960 thus was in a state of crisis. People were going through great misery with hunger and epidemics prevalent throughout the country, although no sizable reductions of population seem to have occurred as in the past. At least mechanisms for distributing the poverty and misery were in operation.

And what was the state of the Chinese economy when the Gang of Four were arrested and the Cultural Revolution brought to an end? In January 1975 at the National People's Congress Premier Zhou Enlai expressed his determination to pursue the line of modernization through industrialization. He was intent on bringing the decade-long internal turmoil under control. However, it was about this time that the domestic political feud came to its final climax, manifesting itself in the collapse or total malfunctioning of the state machinery. People were depressed and production plunged, hitting the bottom in 1976.

The year 1976 saw a number of dramatic events in China, which also put an end to the period of confusion. Zhou Enlai died; the Tiananmen incident took place; Deng Xiaoping was disgraced once again; Zhu De died; and there was a major earthquake at Tangshan. As if to close the curtain Mao Zedong, too, died. When the Gang of Four were arrested, an epoch was definitely over. It was exactly a decade after the first appearance of the Red Guards in 1966. It is no easy task to describe the Chinese economy at this juncture in a balanced manner. But there are certain elements that can be pointed out quite clearly.

First, the top leadership in the nation's political scene was in a very precarious position, unable to come up with a clear economic policy. No one could fail to see that some large-scale and dramatic changes were in store. The reemergence of Deng Xiaoping was a symbol of the impending political upheaval.

Second, the decade-long "struggle" had done severe damage to Chinese human resources. Many specialists in technology and management had been chased out of their positions and the period of inactivity that followed had been quite detrimental to them both physically and spiritually. Moreover, when returned to their former positions, they were ten years older. Meanwhile, the institutions for training younger generations of specialists were virtually at a standstill. The results of these phenomena are not quantifiable, but nonetheless were a part and parcel of the actual economy.

Third, all sorts of mechanisms essential for a functioning economy had been destroyed. For example, no statistics were published during this period due to the destruction of the statistics collecting machinery. Without statistics there can be no economic planning.

Fourth, the Cultural Revolution had caught up innumerable actual living per-

sons in its meshes, from the top political leadership all the way down to ordinary citizens, including students and even children. The damage done to the social fabric was thus beyond retrieval. People had been hurt, and the resulting society was a world devoid of both trust and confidence among its members. The Great Leap Forward had also ended in a tragic manner, but it could be said that it was a fight against nature that had been lost, a battle fought in company with fellow human beings; it had produced no major feelings of distrust against other persons. Herein lies one major difference between the period following the Cultural Revolution and that following the Great Leap Forward. One must also mention that the Great Leap Forward took place only a decade after the founding of the nation, when the enthusiasm stemming from national liberation still remained. Such was not the situation three decades after "Liberation."

Fifth, those people who were placed in positions of responsibility during the Cultural Revolution often lacked professional expertise, making it a virtual certainty that those who had been displaced would be reinstated in their former positions. This in turn created a high degree of tension between the two groups.

Sixth, though the victims of the Cultural Revolution were to regain their former positions and honor, they did not seem to possess the kinds of ability that would be needed to modernize the country on a new scale.

Seventh, everybody was fed up with "revolution" and "struggle," and knew for certain that only "modernization" would save their country and improve their lives. Moreover, capitalist industrial countries seemed to prosper, though according to common belief they should have "gone down the road of impoverishment under capitalist exploitation." The Chinese people thus lost a conviction.

We have described above the conditions prevailing in the periods following the Great Leap Forward and the Cultural Revolution. It should be clear that the immediate task was to rebuild a system which would allow implementation of a long-term development plan in both these periods. The result in both cases was the ushering-in of an ensuing period of "readjustment."

Let us now define the concept of readjustment. The term is used both in a broad and a narrow sense. In the latter it is used to refer to corrective measures to deal with various confusions, to rebuild a system once destroyed, and to correct material imbalances among various economic activities so as to regain economic consistency. The term "readjustment" is also used in a broad sense to refer to reforms of various institutions. Consistency and efficiency in any socialist economy is of vital importance to its managers, and that is precisely what reforms seek to achieve. We should not overlook the fact, however, that reforms embrace both short-term elements involving immediate problems and long-term economic issues at the same time. In this paper the term "readjustment" is used in its broader sense: it may be redefined as "the curative efforts applied to the confusion caused by mistaken policies for the purpose of recovering order and preparing necessary conditions for the functioning of long-term socialist economic planning and the accompanying annual plans."

II. COMPARISON OF THE TWO PERIODS OF "READJUSTMENT"

It has been pointed out above that the "readjustment" policy followed in the two periods has had the same purpose and objective. Let us elucidate the differences between the two periods of "readjustment" in this section.

The first difference relates to the length of the preceding periods in which economic policies are now judged to have been wrong. In the case of the Great Leap Forward the duration was only three years or less, while the Cultural Revolution lasted ten years. This difference gave rise not merely to quantitative differences but also to many qualitative differences as well.

Second, in the case of the post-Great Leap Forward period the kind of policy that had to be pursued by the planning authorities was quite clear, while a complex mixture of a great variety of problems arising out of the Cultural Revolution acted to obscure the nature of the remedial measures which needed to be adopted.

When the Great Leap Forward was over, agriculture as well as industry was in a tragic condition with people literally going hungry and malnourished. During the Cultural Revolution, on the other hand, agriculture was largely left alone both technically and institutionally. It was recognized quite explicitly that playing with agriculture would be dangerous, even causing famines. It could be argued that because agriculture was left untouched by the Cultural Revolution, the nature of the problems raised by the movement were actually obscured and the period of difficulty and confusion prolonged.

Furthermore, the leaders were preoccupied with their movement and political struggles and failed to fully recognize the position they were in when Mao died at the end of 1976, the Gang of Four were arrested, and a new age was thus ushered in. On the one hand, they failed to realize the enormity of the task of forming and then executing full-fledged economic development plans. On the other hand, their long years of debate over "revolution or production" or "red or expert" led them to believe that once they gave up revolution and concentrated on production and construction, economic growth and in particular industrialization would be achieved quite smoothly. That this was a grave misunderstanding was proven in no time. When the Ten-Year Plan was inaugurated, they spoke of a new "Long March," to indicate their readiness to go through a long and tedious period of strenuous efforts, but the plan itself clearly revealed their intention of transforming their economy to that of an industrially advanced country almost overnight.

In the readjustment period following the Great Leap Forward the agricultural production methods that had been newly adopted during the Leap were abandoned and older methods were quickly restored. In order to circumvent excessive institutional reforms the production team (essentially the same as the earlier basic-level cooperative) was made the new economic accounting unit. In the industrial sector, financial control was tightened in order to halt the reckless

construction of facilities.¹ As will be outlined below, the decentralization effected during the Great Leap Forward period sometimes destroyed the smooth functioning of economic planning, and one remedy was to encourage inter-enterprise contracts in order to improve mining and industrial operations.²

Let us now review briefly what happened after 1977. In November 1976 the Ministry of Coal Industry convened the National Conference of Coal Miners, which was followed by over fifty national conferences of experts in individual sectors by February 1978 (when the National People's Congress was held). These meetings were attended by thousands of people and sometimes by as many as ten thousand experts. Precise details of the proceedings are not available, but judging by their timing as well as the big number of people attending them, they cannot be thought of as sectoral meetings for the purpose of forming new economic plans. They must have been either grandiose exhibitions announcing the recovered honor of the experts hitherto in disgrace or an occasion for explaining and propagating the basic policy of modernization already worked out to those in charge of actual production units. Something very similar to this had happened immediately after the Great Leap Forward but on a far smaller scale and with singular emphasis on agriculture.

Let us turn now to the third major difference between the two periods of readjustment. In the early 1960s the failure of economic policy during the preceding period was keenly realized and strenuous attempts were made to restore order, but this was not the case in the post-Mao period. The Ten-Year Economic Development Plan announced in the Hua Guofeng report to the National People's Congress in February-March 1978 was the diametric opposite to what should have been done and only served to exacerbate the damages. It came only a month after Vice Premier Yu Qiuli had already announced a very ambitious agricultural mechanization plan at the national conference for the promotion of mechanization in agriculture.

The Ten-Year Plan of Hua was a grand industrialization scheme built around the construction of 120 large plants, and envisaging an iron and steel production of 60 million tons as well as the food production of 400 million tons by 1985. The whole country boomed in 1978 as this plan got underway. New investment was started in all sectors of the economy. Foreign equipment and technologies began to be imported. Loans from abroad, exportation of raw materials, and importation of iron ore, which had been previously considered taboos, were now actively encouraged.

¹ There is little material available regarding the several years preceding this period, partly because of the embargo placed on relevant materials but more importantly because of the absolute lack of statistics and other data. The situation improved during the readjustment period: several journals were published on financial management with papers of commendable quality as well as other information; some of these materials were compiled in a series of monographs [2] and made available abroad. Their publication has considerably facilitated our understanding of the situation.

² The actual state of affairs during this period has hardly been given little publicity abroad, making it very difficult to grasp what was in fact happening. Official publications embody mostly dogmatic claims, giving little insight into the reality. In contrast, Franz Schurman's work [1] is an extremely fine work, and later events have proven its validity.

It was quite apparent that this Ten-Year Plan was not an economic plan in the true sense of the term, having no comprehensive system of investment and production. In fact, it may be said that the plan totally lacked consistency. It was a political report, laying down a basic policy line, rather than an economic plan as such. It was treated as if it were a genuine economic plan, however, and construction and investment were started on all fronts without a solid foundation.

It was clear that the plan went beyond the actual capacity of the economy in finance, materials, personnel, technology, management skills, and foreign reserves. Already by the end of 1978 the whole economy was being rapidly led to ruin and destruction. It was at this point in time that a big turning point in policy came about in the name of "readjusting, restructuring, consolidating and improving." The de facto declaration of this policy change to foreign countries came at the end of February 1979, when various foreign firms were told that China wished to suspend contracts that had been concluded regarding plants and equipment. Already by the latter half of 1978 various troubles had arisen, and policy was revised at the Third Plenum of the Eleventh Central Committee in December that year. Despite the revision, a number of further contracts were concluded for the importation of plants and equipment, and thus several months were wasted before the policy decisions became fully effective. It might be noted that certain actions are being taken even today that go against decisions which have been taken by the center.

Let us digress here somewhat to deal with certain institutional matters. First, the Great Leap Forward period: as is well-known, three important rules were promulgated at the end of 1957,³ to be subsequently supplemented by an additional two.⁴ They provided for the delegation of authority by the center to local governments as well as for the expansion of the role of the market mechanism corresponding to the diminishing role of administrative controls. For instance, the number of "directive indices" or "norms" applying to state corporations was reduced from twelve to four. Control of approximately 80 per cent of all corporations was transferred from the central government to local governments. Productwise state commercial corporations charged with the important task of distributing essential materials, were taken over by local governments. Even more drastic measures were taken in 1959: vertical economic planning sector by sector (*tiao-tiao de jihua*) was transformed into horizontal economic planning with areas as the planning units (*kuai-kuai de jihua*). This change had far-reaching impli-

³ "Guowuyuan, Guanyu gaijin gongye guanli tizhi de guiding" [State Council, Regulations regarding improvement of the industrial management system]; "Guowuyuan, Guanyu gaijin shangye guanli tizhi de guiding" [State Council, Regulations regarding improvement of the commerce management system]; and "Guowuyuan, Guanyu gaijin caizheng guanli tizhi de guiding" [State Council, Regulations regarding improvement of the fiscal management system].

⁴ "Guanyu gaijin shuishou guanli tizhi de guiding" [Regulations regarding improvement of the taxes management system]; and "Zhonggong zhongyang, Guowuyuan, Guanyu gongye qiye xiafang de jixiang jue ding" [The Central Committee of the Chinese Communist Party and State Council, Several decisions regarding decentralization of the power of industrial corporations].

cations. All of these institutional changes took place on the eve of or during the Great Leap Forward.

The year 1958 saw the great agricultural reform, integrating virtually all agricultural households into people's communes. People's communes were characterized by the large number of households falling under each management unit and by the multiplicity of organizational functions, summed up in the slogan of integrating industry, agriculture, commerce, education, and military affairs. They also completely changed agricultural production methods. Furthermore administrative organizations lost much of their authority, while the CCP assumed a great deal of power, sometimes referred to as an "almighty leadership." The result was that the decentralized right to decision-making did not really function during the Great Leap Forward period, and that the centralized party often wielded actual power.

As has been touched upon briefly above, many of these measures were again subject to rapid change once the Great Leap Forward proved unsuccessful. First of all, the party receded to a position of "no guidance," while the state machinery resumed its former power. As local governments and corporations retained the power to make decisions on their own on a wide variety of issues, the result was a genuine decentralization of power firmly established. This did not, however, mean that orderly functioning of government and economic machinery ensued. In fact confusion and the absence of relevant plans forced individual business units to act on their own even more than previously. In response to the changes in the situation, however, state commercial corporations were revived, but under stronger financial control by the government. Rigid supervision was resumed over the use of bank loans, for instance.

On the other hand, the most important horizontal, i.e., geographical, division of planning and administration was left untouched, even to this day. The number of directive indices or norms, earlier reduced from twelve to four, was increased to eight: production figures for principal products, kinds of products, quality of products, energy consumption, labor productivity, costs, profits, and the amount of liquid assets expended. These eight indices, too, formally remain effective today.

The agricultural system was also rapidly revised. The production team consisting of twenty to thirty households, became the economic accounting unit. This amounted to a fundamental reorganization of the people's communes, a prime symbol of the Great Leap Forward.

As for the institutional changes that were effected in the post-Mao period, it should be said that the general long-term objective of the changes has not been made clear. But there has been a strong determination to liberate various institutions from the fetters of dogma and repression and to let them carry out drastic reforms. This is indeed a major difference from the period following the Great Leap Forward.

More specifically, local governments and operating units have been given a good amount of discretion regarding plant and equipment investment, product distribution, foreign trade, and the use of foreign reserves, among other things.

These concessions were not granted without a struggle among the top political leaders in the central government, and continued progress in this direction is heavily dependent on events in the sphere of politics. As it happened, in the period in question, those who emphasized the need for liberalization in order to attain economic consistency and efficiency were coming to occupy important positions in the central government. The most dramatic institutional changes were announced at the National People's Congress in September 1980, and it was made known that "This is only the beginning of big maneuvers to come." It looked as though the leadership might even cross over the line demarcating socialism.

It is indeed ironical that Zhao Ziyang had to make an about-face almost immediately after he gained power with the declared intention of liberalizing policy. He had been considered to be the very man who could carry out such a policy.

In a word, the problem was that local governments were given so much power that the central government could not exercise any meaningful control over them. Local governments and business units were accumulating considerable assets at the very time the central government was suffering from big budget deficits. The intended reduction in capital construction aimed at regaining balance in the budget and between materials demand and supply was rendered ineffective as localities went on with their own capital construction plans even when they were against the wishes of the central government.

At the same time, various institutional reforms devised to encourage initiative on the part of individual factories and also to link their efforts with actual revenues failed to function as intended. In the mining and industrial sector, for instance, production units had previously hardly needed to give any thought to the marketing of their products because state commercial corporations bought up their entire output regardless of market conditions. Now, however, small changes were made so that part of their products had to be sold through channels developed by the producing units themselves. But it proved very difficult for inexperienced and untrained production units to find their own clients, to price their products, and to produce what the market demanded.

At any rate, investment curtailment in the name of readjustment was not achieved, and budget deficits and inflation grew to an unprecedented level, compelling the central government to reverse some of the intended institutional reforms. At the end of 1980 the reform orientation changed to various restraining and tightening measures. A number of rules and directives were issued regarding prices, state budget, bank financing and capital construction,⁵ and

⁵ "Guanyu yange kongzhi wujia zhengdun yijia de tongzhi" [Circular notice regarding strengthening price control and rectifying negotiated prices]; "Guowuyuan, Guanyu pingheng caizheng shouzhi yange caizhong guanli de jue ding" [State Council, Decisions regarding financial balance and strict fiscal management]; "Guowuyuan, guanyu qishi jiaqiang xindai guanli yange kongzhi huobi faxing de jue ding" [State Council, Decisions regarding proper management of lending policy and strict control of issuance of bank notes]; "Guowuyuan, Guanyu xianqi zhouhui weijing pizhun cunfang zai waihui de tongzhi" [State Council,

corresponding measures were taken on the part of the government. This policy eventually came to bear fruit toward the end of 1981 as trade and fiscal deficits were almost eliminated.

During this period many studies were conducted as to how best to carry out reforms. They covered such areas as the best organizational setup for planning, the authority and responsibilities of local governments, and methods of control over production units, as well as liberalization toward small-scale individually-operated business units. In the course of this study the need to learn from foreign countries came to be emphasized, and the erroneous notion that advanced industrialized countries had somethings to teach only in the natural sciences was rapidly done away with. Chinese leaders were impressed with the great efficiency in privately-operated firms in capitalist countries, and tried to introduce their management methods, especially during the 1977-80 period.

We may summarize the Chinese experience during the past few years as a rapid recognition of how big a problem it is to reform the economic planning system. As of 1982, China is showing particularly keen interest in the experiences of East European countries, Hungary in particular, on the assumption that China can learn a good deal from them. Modernization cannot, of course, be expected to make great progress overnight in view of such obstacles as the sheer size of the country, the existing socialist system, traditional values and human relations that are not conducive to management of the modern sector, the lack of a management stratum with the necessary expertise to run the economy, etc. Many of these obstacles are peculiarly Chinese, and thus force China to tread a path hitherto untrod in human history. The Chinese may be able to learn certain things from advanced countries, but there are other things they alone can solve. The overall task is indeed big enough to deserve comparison with the Long March, the only difference being that the revolutionary Long March resulted in a final dramatic victory while no such recognizable victory exists for what is being attempted now.

In the agricultural sphere, one unexpected development has been the virtual destruction of the system of the people's commune which had been created during the Great Leap Forward period. Established in 1958, the communes were looked upon as "large in size and public in nature," as an organizational form designed to achieve the "integration of industry, agriculture, commerce, education, and military affairs." But the number of households under a commune (several thousands) was too large for maintenance of the working morale of the farmer, and the actual working unit had become the production team consisting of twenty to thirty households. Still, many features of the people's commune had been retained. The management committees of the communes were able to exert wide-ranging influence on the production teams under their direction, in the form of

Circular notice regarding absorbing the foreign exchange held without permission]; "Diwujie quanguo renmin daibiao dahui changwu weiyuanhui, Guanyu fangzhi guanting qiye he tingjian huanjian gongcheng guojia caichan zaoshou sunshi de jueyi" [Standing Committee, Fifth National People's Congress, Decisions regarding protecting national assets from loss due to non-operating enterprises and suspended or postponed construction projects].

commands imbued with the governmental authority. Irrigation works could be initiated, production plans of the teams could be revised, and mandatory and/or "voluntary" buying plans could be executed. But in the series of reforms effected recently, the very foundation of the people's commune has been shaken, enabling one to forecast the de facto disintegration of the entire system in near future. The most telling move in this regard has been the separation of politics and economy, partially freeing the agricultural production unit from the state machinery. But the production team, too, has begun to crumble. Individual farm households are becoming increasingly independent in their management, producing on the basis of various kinds of contract with the production team. This has taken a great variety of forms, and constitutes a major topic of study both inside and outside China. One complicating factor is that there are geographical differences; another is that while some forms are implemented with authorization from the government, others are practiced illegally. Thus there is no way of describing the totality of such practices observed in all parts of the country, and there is practical debate going on regarding the extent to which this diversity should be allowed. So far developments have reached the stage where the legitimacy of the people's commune system is denied, but the authorities do not seem willing to allow resurrection of the system of private ownership of farm land through a dividing up of the land presently under commune management. And yet the general trend may be too strong to be halted any more. At least the production teams have ceased to be meaningful as the economic accounting units. Most conspicuous is the fact that farmers want to operate on an individual basis, that they can voice their opinion to that effect with no political danger visited upon them, and that it has come to openly admitted that the closer the operating unit approaches individual households, the greater is agricultural production. The phrase "reforms have just begun," common at the National People's Congress in 1980, seems to be most applicable to the agricultural sector. And it is in this sector that we find the most fundamental differences with the period of readjustment following the Great Leap Forward.

In examining the on-going reforms it is impossible to forget for a moment the simple fact that Mao Zedong is no longer on the scene. This has both its positive and negative aspects. On the one hand, there is the freeing of the entire country from ideology. Mao's mere presence, stemming from his charisma, encouraged large and rapid fluctuations of policy. A few words could transform yesterday's virtues to today's vices. In such an atmosphere, people felt hesitant to even point out the most obvious facts. This legacy may still remain in today's China, but the "wave of liberation," although going through a number of oscillations, should be seen ultimately as going forward. Negatively, Mao's death may have deprived the central authority of some power to control. It has become more difficult to exert effective sway over the increasingly independent localities even when they do something that is judged to be detrimental to the whole.

Let us now turn to considering readjustment in its narrow sense. Between 1979 and 1981 the term "readjustment" was mainly used to mean corrections of imbalance among various economic sectors such as the international balance

of payments, the state budget, various economic goods, and investment and savings. The most immediate problem was the budgetary deficits. As is well-known, financial resources for consumption purposes were distributed generously without first securing the supply of consumer goods. Wages (in their various forms) were raised, at the same time the government was raising purchase prices of agricultural products. These measures were adopted in order to enhance the working morale of the workers, as well as to secure mass support for the regime. But in view of the prevailing economic conditions they should not have been adopted, and it is instructive that no similar measures were taken during the readjustment period following the Great Leap Forward. Adjustment measures this time have not only brought about such serious problems as deficit financing and inflation but have also removed the restraints on material desires that had previously existed.

In the event, fiscal deficits and trade imbalance were nearly eliminated by the end of 1981. In other spheres, however, major imbalances have remained; with respect to energy supplies and transportation capacity, for example. Deficiencies in food production have also kept food imports at a high level. Avoidance of even greater food imports will call for a greater food productoin.

Housing has become a new problem in the consciousness of the Chinese. When in 1977 the average floor space for the total urban population was found to be 3.6 square meters per person, every one came to appreciate the gravity of the situation. Since that time there has been a construction boom in civilian housing. Yet, although the housing projects have produced conspicuous results, problems still remain. High-rise apartment houses in cities have often been physically defective and uninhabitable; various government offices have been competing with each other; and trees in rural areas have been wantonly felled for fuel simply to fire bricks.

Light industries are growing very rapidly mainly because of great production increases in consumer durables. Such a phenomenon did not exist in the early 1960s. It remains to be seen what ultimate impact it will exert on the future of the Chinese economy.

China has been quite fortunate in its foreign relations, at least in comparison with the previous period of readjustment when it was isolated and had no friendly nations to turn to for help. Today foreign equipment, technologies and financial resources are all available to China. A good number of Chinese students have been studying abroad, with the greatest number in the United States, followed by Japan and European countries. When in July 1978 a high-ranking Chinese expressed his wish to send as many as ten thousand students to the West, the idea surprised Western diplomats, but as of the beginning of 1982 his wish has been almost fulfilled.

There is another symbolic phenomenon. During the Cultural Revolution the system of statistics collection was severely damaged. After 1977 efforts were made to restore the functioning of the State Statistical Bureau, and by the beginning of the 1980s a large and ever growing amount of statistics was being published for the entire world to see. Although there is much evidence which calls into question the accuracy or trustworthiness of these statistics, the improvement on this front has to be recognized.

The population statistics, especially, are of vital importance. Before the First Five-Year Plan (1953–1957) was announced in 1955, a full-scale census was undertaken in 1953. Many observers, particularly among U.S. demographers, are critical of this census, but there seems to be a unanimity of opinion that it was the most careful census in the history of China. The next census was taken in 1964, i.e., toward the end of one of the readjustment periods we are dealing with here. In 1964, readjustment was about completed and another long-term economic plan (the Third Five-Year Plan) was being prepared. Only the sampling method was utilized in the 1964 census, but this does not reduce its symbolic importance. Another census was scheduled for the middle of 1980, was postponed by a year for lack of preparations, and was subsequently postponed by yet another year to mid-1982 in order to prepare for computer processing of the data. Aside from computalization, another conspicuous feature of this census will be the assistance provided by the Statistics Bureau of the Prime Minister's Office of Japan in the training of experts. As of the writing (end of May 1982) Chinese newspapers are paying a good deal of attention to the census (scheduled for July 1, 1982) and have already carried a number of official directives. The census results will certainly provide us with many clues regarding how the State Statistical Bureau itself is functioning and how far "readjustment" in its true sense is being effected, together with other important demographical features. It may, in fact, prove to be an important indicator as to the end of the readjustment period.

III. PROSPECTS

There is, of course, a concrete set of problems behind each element of the slogan "readjusting, restructuring, consolidating, and improving" and they all seem to be crying out at once for solution. Thus conditions for the formation and execution of a long-term economic strategy are ripe. However, there remains one overriding problem, namely the overall direction of the reform. During the earlier readjustment period in the 1960s various institutional and organizational reforms were carried out which some regarded as a "backward" step in view of the then prevailing communist ideals. One foreign observer, Franz Schurmann, was taken aback at these reform measures and posed the question of whether they constituted a transition or a beginning. At that time neither Liu Shaoqi nor Deng Xiaoping was ready to respond to the issue posed in such a form since the figure of Mao, although nominally with power, served as a check. Without the genuine intentions of Liu and Deng revealed, the country was plunged into the Cultural Revolution.

In the present readjustment period, or at least at the National People's Congress in September 1980, it was declared that China was on the threshold of drastic reform likely to exceed all predictions. Deng, Hu Yaobang, and Zhao Ziyang apparently intend to do away with all taboos and other restrictions. It remains to be seen, however, what can be done within the confines of the existing socialist regime and its economic system.

It is clear that the Chinese leaders themselves have no clear and certain vision

or prospects. They themselves have come to admit their lack of knowledge on this point. More studies will be conducted, but the overall likely outcome of the reforms remains unknown, as does the profile of the newly emerging top leadership of the country.

It may be useful to note that active research has been conducted in matters concerning economic policy, covering such specific areas as the purpose of production, the most appropriate level of savings and the rate of investment, and allocation of investment funds. Much of this research still remains political in nature, with the debate conducted with predetermined conclusions in mind, but there is a visible trend in the direction of the logical accumulation of relevant data from which to proceed to the higher levels of abstraction. Thus there are signs of the existence of true science. However, whether or not a totally free social science will ultimately flourish in China, a science which need pay no attention whatsoever to the nature of the contemporary regime or the basic ideals of communism, remains to be seen.

With an eye to the future, a few final points may be made.

(1) The scale of the modern sector in China has expanded tremendously since the 1960s. This expansion has meant a corresponding expansion of the role of the central planning authority. We need to remind ourselves that there exist no economic theories capable of analyzing and managing such a gigantic economy involving a total population of one billion. As long as people in the Marxist tradition refuse to trust the workings of the "invisible hand" of Adam Smith, human knowledge and institutions must function in its stead.

(2) The birth of the People's Republic of China in 1949 must have existed in the imaginations of the great majority of the Chinese populace as national liberation rather than as the victory of communism. In most cases, the Chinese had no knowledge of what Marxism was all about, while the joy of finally chasing out all the foreigners must have been overwhelming in view of the traditional Chinese pride in being at the center of the world—a pride which had been hurt for a long time. It is this feeling that provided the basis for the theory and practice of communism and sustained the Chinese people in their stoic social and private life for three decades. Today, however, such a feeling no longer seems applicable after the death of Mao Zedong. Rather, there is a reaction to the thirty years of oppression, and the people have come to publicly voice their desire for material well-being, a desire that is no longer looked down upon as anti-revolutionary. This trend seems a general tide of the times, not to be rolled back again. If the government cannot successfully provide the masses with an affluent life, it can no longer convince the nation, by arguing that such a life is not desirable, but by only saying it is impossible. And admittedly it will be no easy task to give a rich material life to the one billion people with an additional increment of ten million a year.

(3) It should be quite clear that there are both similarities as well as differences between the two periods of readjustment. In the short run, the earlier period in the 1960s may have been more difficult for the authorities to manage; there are, after all no people who are actually hungry or dying today. This

may be why Chinese newspapers today claim that "readjustment this time is positive, while it was negative and passive the last time."

But what about long-term considerations? Based on the analysis of several relevant issues discussed in this paper, the proper conclusion appears to be that the difficulties are greater in magnitude today, despite the fact that the international environment is definitely more favorable.

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