What happened in China?

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WHAT HAPPENED IN CHINA?

I. Introd.

A. Tian'anman Square not a reverse of reforms, but causes lay in way reforms were carried out

B. We aren't China experts, but have studied 3rd World; and China is 3rd world:
   1. Draw on 3rd world theory and experience;
   2. Reforms disempowered some, empowered others - in last analysis created increased stratification and a new class which uses state power to enrich itself; and, losing legitimacy, has turned to outright repression of opposition.

C. Use theoretical approach to examine what happened:
   1. Sketch problems at which reforms aimed;
   2. Describe particular features of reforms and differential impact;
   3. Demonstrate that features tended to create new ruling class
   4. Expand our theoretical explanation and its relevance to China;
   5. Examine responses of leaders, students and intellectuals to new difficulties that confronted China in 1989;
   6. Suggest explanation for extraordinary violence of the repression;
   7. Suggest possible alternative directions for future Chinese policy flowing from this explanation

II. The difficulty reforms addressed: briefly summarized

A. World Bank report referred to relative success by 1980:
   1. Compared to other 3rd W countries with same per capita income, improved living standard of mass
      a. Relatively egalitarian distribution, low fertility, high investment of limited resources led to better use
      b. Life expectancy: 67 years
B. Serious problems:

1. Real poverty for many

2. Cultural revolution and Gang of Four: economic disaster:
   a. Dismantled central planning
   b. Technology and productivity remained low in many sectors (tho in 5%/military, world standards; and 25%/1970s)
   c. Abandonment of material incentives left wages frozen for a decade; agricultural incomes stagnated;
   d. Harsh treatment of intellectuals and cadre and destruction of higher education and academic research in name of socialism led to cynicism, "socialism" became a four letter word

II. Reforms and consequences:

A. Deng Xiaopeng became leader in revulsion against Cultural Revolution -

1. Explained poverty by low productivity

2. Replaced ideologicalicalical commitment by slogans: "To get rich is glorious"; and "some must get rich first so others can get rich later"

   a. Both contradicted socialist principle linking material incentives to work done
   b. Paralleled neoclassical economic's focus on efficiency without regard to distributional issues
   c. Called it "primary stage" of socialism" that looked like state capitalism elsewhere in 3rd World, tho formal legal title to most property remained in state, not individuals

B. the reforms:

1. Agriculture:

   a. Eliminated communes, changed to individual land tenures by contract household responsibility system
      i. Individual families contracted with local governments for particular parcels of land,
agreed to supply fixed amount of produce at low state fixed price; sold production above that at free market price; difference = rent

ii. In all but name, family ownership of plot (very small, less than an acre) = created new class of small landholders

b> Results:

i. Initial once-only growth in output increased peasant incomes; but by 1984 this levelled off; grain production declined

ii. Dar side:

a) Farmers spent surplus incomes mainly on housing, private transport, speculation;

b) Smaller plots hindered mechanization; reports of commune tractors, trucks rusting from disuse

c) Growing stratification as former commune cadre favored some, disfavored others in distribution; and richer farmers hired poorer ones from remote less privileged areas as cheap labor;

d) Previously built infrastructure deteriorated with loss of collective organization

e) Special problems for girls, women:

- families withdrew children, especially girls from school, violated one child policy

- growing numbers of men and some women fled fragmented plots to become unregistered (illegal) workers in construction and unskilled work.

2. Production and distribution of consumer goods;

a. Initial improvement in 2 ways:

i. Growth of individual and private enterprise—improved production and distribution of consumer goods
ii. Development of new rural and urban small enterprises to produce goods, provided off farm employment and goods

b. Dark side:

i. Use of backward technologies, outpaced raw materails and energy supplies in unplanned growth

ii. Growth of income and wealth differentials: millionaires, whole villages got rich using migratory labor; managers of township and rural industries got high salaries and perks

3. Invigorating state-owned enterprise:

a. Principle explanation for low technology (like supply side theory) was powerlessness of managers and lack of workers' job security

i. - led to breaking the iron rice bowl; but China had no overall social welfare (job = housing, health care, old age pensions, sometimes school

b. Two laws to attain ends:

i. Bankruptcy Law: bankrupt if looses became too great; result = loss of jobs and social security

ii. State Enterprise Law formalized practice in previous 2-3 years:

a) contracted out management to successful bidder: had extensive powers, insulated from political/Party cadre, including power to hire and fire;

b) Could determine investment of surplus: how much to invest, bonuses to pay workers (esp. high cadre) companyu cars and other perks

c. Dark side:

i. Didn't increase productivity/unit of investment much, tho increased overall output rapidly using enormous investments of capital;

ii. Used raw materials, energy and transport
which did not expand as rapidly; investments went into profitable consumer goods, not basic industries.

iii. Speculation in these basic materials plus two tiered price system

iv. Statification as managers got rich, accompanied by corruption, speculation, nepotism

4. Money supply and inflation:
   a. Expanded investment led to Per capita income doubled from 1978-88,
   b. Dark side:
      i. Center lost control over capital investment: by 1985, 655 of capital investment did not appear in Plan
         a). consumer goods and speculative housing, luxury hotels, etc. expanded; but not basic raw materials, transport, energy;
         b) Decentralization of banks enabled managers to borrow from them, replace local surpluses (used for consumption) by loans = rapid expansion of money supply and inflationary pressures
      ii. Living standards for most rose more slowly than per capita income; as inflation mounted (by 1989 = 28% inflation officially, but much higher), official statistics said 20% of urban populations saw drop in real incomes

5. Decentralization:
   a. Enlarged power of provinces and local decision-making
   b. Dark side:
      i. Center gave power to provinces and local governments power to tax; but having left profits with managers, had little revenues
         a) Failed to establish effective tax system
         b) Income dropped from 32% of GNP in
1978 to 1988

ii. Center turned over power re imports and exports to provincial authorities and many enterprises

a) Some imported essential technologies

b) Others imported electronic gadgets, cars, even equipment duplicating Chinese production = misuse of scarce foreign exchange

iii. Coastal provinces grew rich and powerful, aggravating income differentials between favored coast and impoverished hinterland

iv. Millions of unemployed rural laborers descended on coastal cities; 1 million in Beijing alone in spring, 1989

6. Opening window to outside world:

a. Needing foreign exchange, Chinese enterprises entered competition in narrowing world market:

i. Mainly sold labor intensive manufactures (with devaluation, China's wages - 1/20 of US workers doing same work; special problem for women, children in coastal areas)

b. To attract foreign investment, provided incentives like other third world countries

i. Lack of adequate controls so foreign investors sought to open China's market for their goods (not bring new tech)

eg Kentucky Fried Chicken: world's most profitable branch: made back investment in first 18 months, send home over a million dollars in profits annually for 30 years

ii. Foreign firms gained access to China's cheap labor (including women and children)

Didn't aim to bring in technology; but became source of corruption

c. Growing foreign debt: reached $50 billion by 1989, with heavy repayments due in early 1990s, so had to enforce austerity (like other 3rd world countries)
Now Bob will discuss implications for emergence of a new class and the role of the state leading to Tian'anman Square: