

As these vectors, according to Gomory [1], p.275, are elements of the additive group, the sum of their module 1 components, that is (0,4, 0,6, 0,0,0,0, 0,4, 0,2, 0,4, 0,8, 0,2, 0), enabled us to form such a cutting plane that we obtained the above integer optimum only in one iteration by the dual simplex method (with $-f_{18} = 0,4$ as the pivot element).

Our counterexample is concerned, of course, only with the limitation on 2. Consequently, one can find such a problem of integer programming where the solution is obtained by the procedure of rounding the optimal solution to the relaxed problem.

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O OGRANIČENJIMA NA PROCEDURU ZAOKRUŽIVANJA

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Rezime

U literaturi o cjelobrojnim linearnim modelima postavljena su ograničenja na primjenu zaokruživanja optimalnog rješenja relaksiranog problema. Tako npr. H.A. Taha u svojoj izvrsnoj knjizi o cjelobrojnom programiranju specificira dvije limitacije na proceduru zaokruživanja bazičnih varijabla u kontinuiranom optimumu.

1. Ako je neko moguće rješenje dobiveno zaokruživanjem, ne treba imati iluziju da je takvo rješenje optimalno ili čak blizu optimalnog, i

2. Cjelobrojni model koji ima originalnu jednadžbu kao ograničenje nikad ne dopušta moguće cjelobrojno rješenje putem zaokruživanja.

Na tu drugu limitaciju dat je u ovoj bilješci jedan kontraprimjer koji je proizašao iz razmatranja jednog proizvodnog programa. Pokazano je da se može naći problem cjelobrojnog programiranja za kojega se rješenje dobije procedurom zaokruživanja optimalnog rješenja relaksiranog problema. Druga limitacija, dakle, općenito ne stoji.

SELF-MANAGEMENT IN CHINA?¹

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INTRODUCTION

China has been noticeably absent from the debates on self-management theory and its practical application. The reasons for this cannot be its size — or even the size of the collectively-owned sector of the economy which comprises over 250,000 industrial enterprises and about 50,000 communes, formed from smaller production brigades and teams. The fact that it is a 'Third World' country cannot explain its absence, for others such as Peru and Algeria have received significant attention. Neither could the argument that it is a negative example of trends towards self-management for both capitalist and state socialist societies in Europe and elsewhere, quoted as evidence by proponents of self-management². The explanation for China's absence is most probably a result of both a concern with more advanced industrialized economies and the past explicit hostility of the Chinese towards theories of self-management as well as to the countries in which such developments have taken place, notably Yugoslavia. For example, after an initial cautious approach in the mid-1950's, the dominant Chinese views were of outright hostility — until the past few years. Now the situation is very different as the statements below from 1956 to 1980 make clear!

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¹ This article is a slightly revised version of a paper presented at the Second International Conference on the Economics of Workers' Self-Management in July 1980 at Boğaziçi University, Istanbul, Turkey. I would like to thank those who commented on it at the Conference or afterwards (in particular Paul Hare) as well as those who made suggestions based on a previous article in *China Now*. Some — but not all — of these have been incorporated into this article as have any significant changes or developments in policy from July to mid-November 1980. I would also like to thank Joan Wright and Beverley Shields for their assistance in typing various versions of the article.

² An examination of the index of Vanek's collection on *Self-Management* (1975) shows that the USSR has 79 references, Yugoslavia 62, Peru 60 and France 20 indicating that advanced capitalist and socialist countries are considered as well as those from the Third World, including examples of economic systems which are not self-managed. China, however, is not mentioned.

- 1956: (Yugoslav trade unions and self-management) "have aroused our great interest, but unfortunately we still know very little of this system" (Chen Fungwen, 1956).
- 1963: "The theory of 'workers' self-government'... runs counter to the fundamental Marxist theory of socialism... It is thus clear that 'workers' self-government' has nothing to do with socialism... does not provide self-government on the part of the workers; it is a hoax... The Tito clique's enterprises under 'workers' self-government' are not socialist but capitalist in nature" (*Renmin Ribao & Hongqi*, 1963).
- 1980: (i) "We firmly believe that the heroic Yugoslav peoples will carry out Comrade Tito's behests, unite closely and forge victoriously along the road of socialism, self-management and non-alignment," (Hua Guofeng & Ye Jianying, 1980).
- (ii) (Yugoslavia) "has blazed a new road of building socialism... the system of socialist self-management based on reliance on the masses, giving scope to democracy and perfecting the legal system, with the labouring people directly managing the economy and social affairs" (Sun Yefang, 1980).
- (iii) "... the expansion of enterprise self-management is the unanimous demand of the whole nation" (Liu Guogang, 1979).

So, at least theoretically, there has been a major reversal of the previous Chinese attitude to self-management. This paper aims to draw to the attention of those interested in self-management (both in theory and in practice) China as an example of a socialist country which has attempted to develop a model of industrial organization³ different from both rigid central planning and 'market socialism', and as a society in which trends towards self-management are likely to increase in the near future — and which should no longer be absent from debates on self-management. The paper therefore covers (a) the 'Maoist' critique of self-management; (b) the development of Chinese industrial organization from 1949 to 1976; (c) the factors behind, and theoretical justification of, moves in the direction of self-management; (d) the nature and effects of recent changes in industrial organization, particularly the current experiments in Chinese industry; and (e) likely future developments and the constraints upon them.

THE 'MAOIST' CRITIQUE OF SELF-MANAGEMENT

The quotations from 1963 (above) are taken from the document *Is Yugoslavia a socialist Country?*, part of a series of polemics primarily directed against the USSR in which Mao Zedong and his support-

³ This article is limited to a consideration of industry, though the agricultural and rural organization of China is also of considerable interest. In general, there has been less radical changes with respect to self-management in policy towards rural areas since 1976, for there had been less criticism of collective ownership and elements of self-management previously.

ers put forward an interpretation of Marxism-Leninism which significantly modified the then 'orthodox' theory which was dominant in the Soviet Union and in most other 'socialist' countries. This 'Maoist' development of Marxist theory was a basis for both new theoretical approaches in a variety of fields and new policies in China, which was seen as a socialist society in transition to a classless communist one. This transition state of socialism was one in which there was a gradual transformation of society in such areas as criteria of distribution and the division of labour. The Maoist approach was dominant, at least in the ideological sphere, from about 1958 to 1976, since when it has been significantly modified. It can be seen as a relatively coherent approach to analyzing and changing a socialist society, which differs significantly from both the Soviet one and that of self-management. However, in China the Maoist critique of self-management in general comes from a variety of documents, etc., in which often general analysis is subordinate to other more specific questions, so it has been necessary to construct it from both a combination of specific documents, more general Chinese analyses and the arguments on self-management of Western theorists broadly following a Maoist analysis, notably Charles Bettelheim.⁴

Economic theories of self-management in general (a) accept the enterprise as a basic unit — both of analysis and of policy, for example, in a legal framework and as an accounting unit. It is also argued (b) that inter-enterprise relations should be conducted on the basis of direct contractual relationships, preferably within a market framework, and (c) that the internal organization of the enterprise should be based on democratic principles with the right of participation limited to those who work in the enterprise.⁵ Whilst in the most broad terms there would be agreement between self-management and

⁴ Part of the reason for this is that Chinese political economy remained tied to Soviet concepts for many years, leading to a contradiction between these concepts and the development of a 'Maoist' theory. In political economy, the break was only being made in the mid-1970s with the development of the 'Shanghai School' of economists who were closely linked to the Gang of Four. Their work was influenced by that of Bettelheim and was cut short by the new leadership in 1976.

It can, of course, be argued that the positions given the label "Maoist" in this paper are only partially representative of Mao's thought as they represent his views as they developed in the late 1950s through the Cultural Revolution. These are seen by the present Chinese leadership as deviations from a more correct position taken in the late 1950s by Mao in the period before the Great Leap Forward. In that the view called "Maoist" in this article represents the development of his later ideas, it is obviously partial in this respect — but in many ways the specific difference between Mao and many other Chinese and other Marxists is only clear in this later development of his thought.

⁵ This is not to argue that all advocates of self-management agree with these propositions — rather that they are the dominant ones amongst economists concerned with the problems of self-management, e.g., Vanek and others. Some advocates of self-management have argued for a participative planning system along the broad lines of the Maoist idea but in general with much greater ultimate control from below rather than through a single party.

Maoist theory on the goal of maximizing people's conscious control over their lives, the Maoist position is that the self-management approach is fundamentally wrong in the above steps (a) to (c) in its analysis. But why?

On (a), there would be agreement on the role of the enterprise as a key unit of analysis both in capitalism and in a transition to socialism. However, the Maoist approach is that the boundaries of an enterprise should be broken down progressively. Thus, Bettelheim sees the enterprise as a "matrix institution for the reproduction of capitalist social relations" (1976: 96) and as a "product... of the capitalist development of the productive forces" (1976: 86). In less theoretical terms, the need for an enterprise to be more than a productive unit has been stressed by the Chinese — not just as a provider of welfare benefits to its workforce but as an organization contributing to such activities as the integration of education with productive work for schoolchildren and university students.

This criticism of the enterprise is clearer when one considers (b) — relationships between enterprises. The Maoist position is that the economic performance of the enterprise as measured in financial terms should be secondary to its performance in contributing to overall production and social development. In a socialist society one should therefore seek to gradually reduce the role played by monetary calculation and by material incentives at all levels, replacing them by consciously-planned development. This implies that criteria of profitability should not be emphasized, although they may be of use in judging some aspects of economic performance. Market relations between enterprises are thus to be progressively limited in favour of planning. However, the nature of the planning process is crucial for it should be based on political goals of a combination of economic growth and the transformation of forms of organization in line with Marxist ideals, e.g., reducing the gap between mental and manual labour. As a result, the planning process should be marked by the involvement and initiative of the workforce rather than by the passing-down of centrally-determined orders to enterprises. Participative planning with "politics in command" rather than "profits" or "economics" is the desired form of inter-enterprise relations.

On the internal organization of the enterprise, aspect (c) of the self-management propositions is strongly argued in the Maoist view that although collective (co-operative) forms of ownership and payment in line with enterprise performance will exist in a socialist society, they should progressively become state-owned, though this "transition from collective ownership... to a unitary ownership by the whole people is a rather long process. Collective ownership itself develops from lower to higher levels and from smaller to larger scale" (*Renmin Ribao & Hongqi*, 1964: 68). So although decision-making should involve the workforce more and more, this should transcend the boundaries of an enterprise which should produce in accordance with the state plan rather than having sufficient autonomy to decide, for example, its products and output targets, distributing workers' income in line with its performance. In particular, prices should be stable and set by the

state to reflect social goals rather than being determined by market forces. Thus, enterprise autonomy is severely restricted.

Overall, therefore, the Maoist critique of self-management is that by reducing the role of planning, giving enterprises autonomy, measuring performance by financial criteria, and by paying workers in line with enterprise performance, the effect is not to progress towards their goal of communism but to revert to capitalist values and criteria. In the case of Yugoslavia, the formal control of workers over the enterprise is not reflected in their operation for, given that they operate in competition with other enterprises and the "fact that the manager of an enterprise controls its means of production and the distribution of its income" (*Renmin Ribao & Hongqi*, 1963: 20) as "abundant information in the Yugoslav press proves that the workers' council is merely formal, a kind of voting machine" (1963:20), "the relations between managers and workers are actually relations between employers and employees, between the exploiters and the exploited." (1963: 19). Theoretically, this conclusion is weak in Chinese analyses but is put more coherently by Western theorists such as Sweezy & Bettelheim (1971). In particular Bettelheim (1976:84) argues that in specific circumstances, self-management "can have beneficial effects for the workers" but that it divides the working class as a whole into competing groups with "all the characteristics of the social and technical division of labour peculiar to capitalism... reproduced" with the decisive influence over an enterprise's operations being exerted by those making financial decisions "even if these managers are nominated by the immediate producers" (1976: 95). So in contrast to socialist development which should combine 'modernization' with 'revolutionization' (Fang Tai, 1964), self-management tends to move back towards a 'restoration of capitalism' and is an illusory solution to the problems it sets out to tackle.

This Maoist theoretical position has not been without its critics, although debate has been limited to particular periods — in 1956—7, 1963—5 and since Mao's death and the fall of the 'Gang of Four' in 1976. Only now has it been displaced for in the earlier debates the Maoist position emerged victorious with its critics accused of 'revisionism' and putting 'profits in command' with at least one (Sun Yefang) being imprisoned for several years. In a 1964 critique of Sun by *People's Daily* and *Red Flag*⁶ (quoted in Andors, 1977: 155), they saw the danger in his proposals of economic reform as follows:

"Acting in accordance with this blueprint... the socialist state of China would become a capitalist big boss granting credits to enterprises and allowing them to make money freely, while the state would collect profit in accordance with investment. Enterprises would become "joint-operated" companies, with the state and the directors or managers as partners sharing in the profits. In such circumstances,

⁶ *People's Daily* (*Renmin Ribao*) and *Red Flag* (*Hongqi*) are the most important newspapers and CCP journal respectively. Sun Yefang has now been restored to an influential position (see below).

the state and leading cadres of the enterprises would degenerate into a privileged strata... When the leaders of the enterprises had only bonus and profit in mind, in order to get more bonus and profits they would use their positions and power to exploit and oppress the workers mercilessly".

THE DEVELOPMENT OF CHINESE INDUSTRIAL ORGANIZATION (1949—1976).

As shown above, the 'Maoist' approach to the issues posed by self-management has been subject to controversy within China in its theoretical views. In the field of policy and implementation, it has also been an area of continuing conflict. Some analysts see this as a cyclical process of applying 'Maoist' policies stressing political goals and commitment to overall goals to a certain point, after which it becomes necessary to revert to more 'remunerative' control through material incentives. Such approaches, however, ignore the extent to which both the Chinese economy and the policies pursued have developed. However one can identify swings in policy between (a) periods in which the more radical aspects of Maoist theory come to the fore, e.g., rejection of material incentives, such as production bonuses and a major concern with reducing the gap between mental and manual labour, followed by (b) periods in which more 'conservative' policies are dominant, e.g., a limited use of market forces, priority on efficiency rather than 'revolutionization', and an increased role for material incentives. In terms of the years since 1949, when the CCP gained control of mainland China, the main divisions are:

1949—1952: *Reconstruction* — following the Civil War, the main priorities were to renovate existing industrial capacity and to establish control over firms which remained in the hands of the 'national' bourgeoisie.

1953—1957: *Soviet Model* — a strategy based on the experience of, and aid by, the USSR with rapid development of heavy industry. A planning system on Soviet lines was set up, though more flexible and less all-embracing. Private firms were converted to state ownership towards the end of this period. Problems with this Soviet model led to the emergence of Mao's distinctive approach, and also to a debate on economic reforms.

1958—1960: *Great Leap Forward* — economic planning was decentralized to give provincial authorities control of much state industry. Policies of rapid growth through mass mobilization led to an initial spurt but then to an economic crisis, partly due to very bad weather. Generally, much more attention was paid to transforming division of labour, worker participation and similar goals.

1961—1965: *Readjustment* — more radical Great Leap policies were abandoned with Mao in a minority of the leadership. Re-

centralization of most planning functions and stress on economic performance. Continued debate over policies, e.g., role of market and profit.

1966—1968: *Cultural Revolution* — mobilization of students and workers triggered by Mao to reverse balance of power in leadership and increase concern with socialist goals. Chaos and industrial conflict, with many previous managers and leaders removed from positions. New enterprise management structures with some degree of election and worker participation. More radical organizations restrained by army intervention. Planning system basically intact but in some disorder.

1970—1976: *Post Cultural Revolution* — gradual reduction in scope of more radical changes, and their incorporation into CCP and management structures. Degeneration of some more democratic practices, e.g. few re-elections of management bodies. Decentralization of economic planning again in 1970 to provincial level. Continued industrial growth but increasing policy conflict, especially in 1976. After Mao's death, new leadership takes over, headed by Hua Guofeng.

This brief historical outline and Figure 1 on industrial growth show in the period 1949 to 1976:

(a) *the extent to which conflict has persisted* — broadly between those favouring the Maoist approach and others stressing 'modernization' through less radical policies. Within any of the above periods, and particularly since the mid 1950s, there has been theoretical and political conflict over development strategy.

TABLE 1.
The Structure of China's Industry

	STATE-OWNED	COLLECTIVE OWNERSHIP	TOTAL
No. of enterprises	84,000	264,000	348,000
No. of employees	74.51 million	20.48 million	94.99 million
Total output	—	—	423.1 billion
Total wage bill	Y 46.9 billion	Y 10.0 billion	Y 56.9 billion
Mean wage (annual)	Y 644	Y 505	—
Mean size of enterprise (employees)	887*	78*	—

* = figure derived from sources.

Sources: China State Statistical Bureau (1979); Xiang (1980)

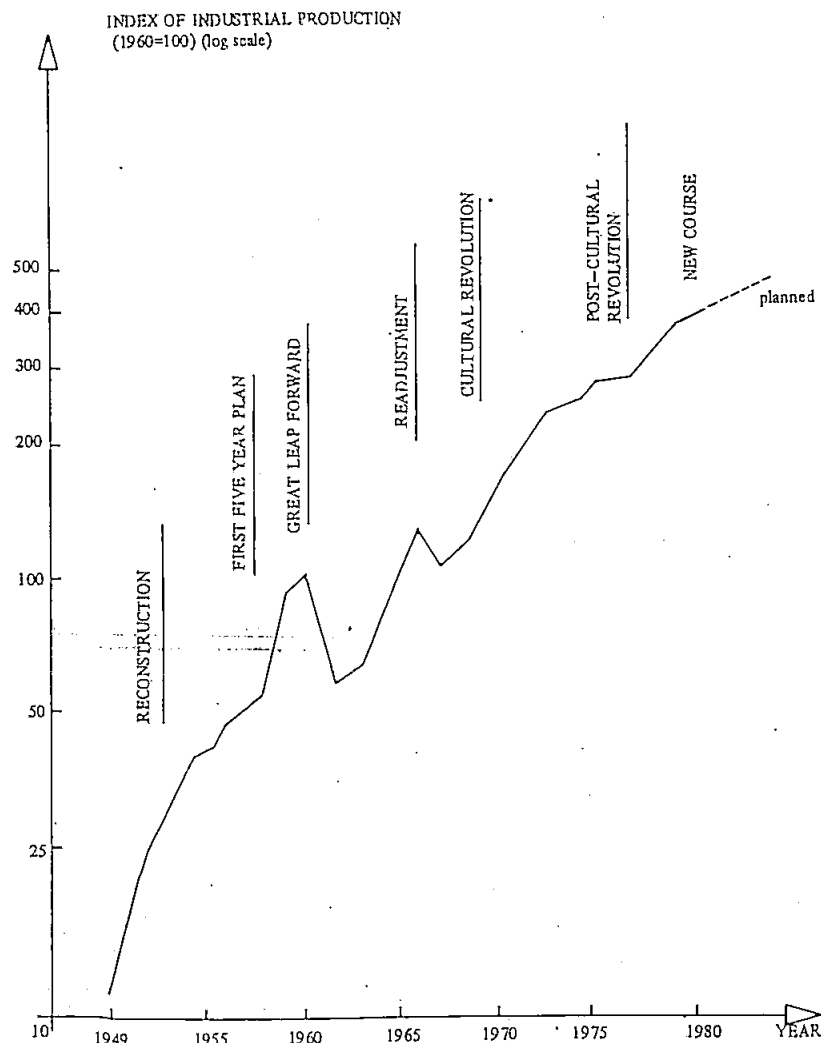


FIGURE 1: CHINESE INDUSTRIAL PRODUCTION (1949-1981)

- (b) *the underlying continuity of many institutional features* — obviously the dominant role of the CCP but in the context of this paper, the persistence of the planning infrastructure inherited from the USSR in the 1950's which has not been radically modified although its operation has been rather different from that in the USSR with at least at times greater participation and flexibility.
- (c) *growing industrial output* — it is important to realize that Maoist policies do not imply lack of concern with growth. Rather they form an alternative strategy for achieving it. Falls in output have been temporary and related to periods of political conflict. As a result, the Chinese economy is now much larger and more complex than that for which the planning system was established. For example, the number of enterprises has risen from 125,000 in 1955 to around 350,000 today (Perkins, 1966:10; China State Statistical Bureau, 1979 — see Table 1).

CURRENT CONCERNS WITH SELF-MANAGEMENT

The summary of Chinese industrial organization and development over the last 30 years shows a generally high rate of growth despite the major policy conflicts. Yet this approach does not reveal the major problems which the economy faces, partly as a result of its success in the past. Whilst the post-1976 leadership has tried to attribute these primarily to the influence of the 'Gang of Four' whom they ousted, the problems are rather deeper. After a fairly rapid economic recovery following the political conflicts of 1976, the new leadership's plans for rapid modernization soon ran into trouble — to the extent that the three years 1979 to 1981 have been designated as a period of 'readjustment', 'restructuring' and 'consolidation' of the economy in an attempt to resolve some of the underlying problems. One of these is the structure of economic planning which is argued to be inadequate and inefficient — and implicitly it is also argued that the Maoist model of participative planning did not work as targets were still basically determined from above. Also, mechanisms of worker participation are seen to have degenerated although it is also claimed that managerial authority was far too weak, as was that of engineers and technical experts.

The major problems in the Chinese economy which are now perceived include:

- (a) *sectoral imbalances* — agricultural and light industrial development are seen to have lagged behind that of heavy industry. As a result, there is a shortage of consumer goods which threatens the present strategy of greater reliance upon material incentives and rising living standards.
- (b) *shortages of key products* — within heavy industry, there are problems in the energy, transport and building materials industries which severely limit plans for expansion. An example is a large new steelworks in Wuhan which was run well under capacity until an inter-provincial electricity grid was set up.

- (c) *growing complexity* — the variety of products which can now be produced, combined with different delivery requirements, etc., and the need to establish balances in planning make smooth operation of the system increasingly difficult. The present system is analysed as over-centralized.
- (d) *supply/demand imbalances* — many cases of this can be quoted. Lu Luping in a recent issue of *Economic Research* (1980) estimated shortfalls of 1/3 in sugar and paper production and 1/2 in detergents. On the other hand, in Shanghai steel window production exceeds demand by 1/3 and in Chengdu there is a 40 per cent underutilization of motor vehicle repair facilities (China Construction Bank report, summarized in *SWB*, FE/W1054/A/7-8). Partly these result from overall sectoral imbalances but it is not just a question of these.
- (e) *waste and inefficiency* — due to lack of economic pressure on enterprises it is argued that capital goods may be used inefficiently, as is energy. Wide differences in quality and productivity exist, indicating that less good performers have room for improvement. In an extreme example, Rong Wenzuo and Zhang Feng (1979) give the case of two nitrogen fertilizer plants of the same basic design of 3000 tons capacity. In 1977, one produced over 5000 tons at a seventh of the cost of the other, which produced only 200 tons. Electricity consumption per ton in the first plant was a fifth of that in the second. Top-heavy management structures have also been criticized, for example, by delegates to the National People's Congress (*BR* 28/1979).
- (f) *lack of flexibility* — although the Chinese planning system has been less rigid than its Soviet equivalent the commitment of commercial organizations to purchase all planned output means that there is little incentive for factories to innovate or change product-mixes. Although devices such as visits to shops and market research were undertaken in the 1970s, stock of unwanted products have accumulated. For example, He Jianzhang (1979 quoted by Gao Zhihua, 1980) stated that June 1978 stockpiles of goods were equivalent to the value of six months' industrial output; in late 1978 in one city, 110 of its 400 large factories were operating undercapacity or had been stopped due to stockpiling of unwanted products (*BR* 21/1979).

These by no means exhaust the criticisms now being made of the Chinese economic management system — others include corruption and lack of defined responsibilities, for example. However, they do show why the restructuring of economic management has become an area of major theoretical and policy debate. In particular, there has been a resurgence of investigations into other socialist economic systems — notably Hungary, Yugoslavia and the USSR — and of theoretical debate on the nature of a socialist economy. The idea of self-management has emerged as a reputable concept in contrast to its treatment in 'Maoist' theory. But what are the current consensus and debates, and to what extent have changes followed the new theoretical

approaches? The rest of this section summarizes the current position amongst Chinese economists⁷, whilst the next one looks at policy changes and trials of greater enterprise 'self-management'.

The dominant approaches in Chinese economics now differ significantly from the 'Maoist' one outlined above. Partly this is a result of changes in personnel, with many economists who lost favour in the late 1950s and mid 1960s being reinstated or promoted to senior academic and policy-making positions. From being effectively silenced in the decade following the Cultural Revolution, such economists are now influential and their work officially published — whilst those associated with the 'Gang of Four' have had their work suppressed. But given that the officially acceptable range of views is limited, there has been a considerable widening of debate in the field of economics, particularly since 1978. The objective of much current discussion is on reforms in the economic structure and has involved a break with the 'Maoist' approach outlined above in relation to self-management. Taking the three main areas of economic theories of self-management, one can see both clear changes and a continued debate over fundamental issues. The three areas will be dealt with in turn before summarizing the controversies over the appropriate overall economic system.

- (a) *the nature and status of enterprises*: in this respect there has been a significant shift towards the view of self-management theorists. The enterprise is now seen as a basic unit of both capitalist and socialist economic systems. It is generally argued that, at least at the present level of 'development of productive forces' in industrialized economies, there must be relatively independent economic units and that it is either impossible or inefficient to try to break down the boundaries between enterprises to any great degree. For example, Jiang Yiwei argues that although a capitalist enterprise "undoubtedly bears the features of capitalism" (1980: 56), there are very important features of enterprises in any "modern economy" which include certain rights of independence from administrative control, and to achieve a dynamic economy, "it must be filled with a built-in motor, mainly, its independent financial interests" (1980: 61). Thus "the basic unit in a socialist economy should still be the enterprise, the independent enterprise. A socialist economic system can only be found through a union of these independent enterprises" (1980: 58—59).

Past policies have been criticized on the grounds that the whole economy (or at least the state sector) was managed by 'administrative means' of planning directives rather than 'economic means' — the management of the economy through control over parameters within which there are relatively independent units pursuing their own interests. Thus, it is now argued by many economists that the core issue is not of the appropriate degree of decentralization of planning within the

⁷ Economics in China includes subjects such as industrial management and organization which would usually be considered as separate disciplines in the West, so it is a fairly general term.

state, but of relationships between state and enterprise. Debate over these issues continues and is reflected in proposals for the overall economic system, but it appears that those who argue that the focus should be on state/enterprise relations (and hence implicitly inter-enterprise relations) have become much more influential over the last two years. Thus, there has been a shift towards the type of focus on the enterprise adopted by economic theories of self-management.

(b) *inter-enterprise relations*: the new emphasis on the need for enterprise autonomy and the replacement of 'administrative means' by 'economic means' of management have substantial implications for the structure of inter-enterprise relations. Needs for flexibility in meeting demands and the growing complexity of inter-enterprise relations are seen to require direct contracting between enterprises to a much greater degree than in the past. But also the present analyses are linked to differing views of the role of the 'law of value' (exchange of commodities whose prices are proportional to their value, or more precisely 'price of production') in a socialist economy.

Whilst it was agreed that the law of value did play some regulatory role in a socialist economy by both those adopting the 'Maoist' approach and its present critics, the major difference is on whether its operation should be progressively limited. Now there has been a move towards seeing the 'law of value' as (i) fundamental to the operation of a socialist economy, (ii) not incompatible with planned development, with (iii) the use of profit as the major criticism for judging economic performance. Thus, there is a rejection both of a plan/market dichotomy (in which one must displace the other) and of a fundamental conflict between a profit criterion and overall planning.⁸ Instead, it is widely argued that planned development of overall priorities should be integrated with a much greater role for the market, though both theoretically and in terms of policy proposals there is considerable discussion over this question. For example, Sun Yefang has been a consistent advocate of the role of the 'law of value' in a socialist economy since the 1950s, in particular of the need for prices to be based on value and for enterprises to make direct contrasts with each other, but does not see this necessarily entailing the use of

⁸ It should be pointed out that the Maoist position does not make a rigid plan/market dichotomy as it considers the nature and the objectives of the process of planning as crucial. On the other hand, the Maoist analysis does see a gradual extension of the scope of planning (of a particular form and with particular priorities) in a transition towards a communist society.

In contrast, economists such as Brus (1972, 1975) have argued that planning may be entirely consistent with the operation of the market in routine as opposed to policy matters, provided that planners' choices are broadly in line with consumers' preferences. He argues that planning can still be effective in the area of macroeconomic and policy decisions — and that this combination of plan and market can avoid some of the detrimental consequences of both planning and market systems. This position appears to be held by many Chinese economists among whom Brus appears to be an influential theorist — and he appears to be more quoted in Chinese economic publications than any other single modern foreign economist.

the market as planners' decision-making should consciously be based on the law of value'. In contrast, Xue Muqiao sees planning as necessarily limited to being of an outline nature (1979: 1), hence as the economy develops, it becomes more desirable to extend the role of market (1980: 25), a point also argued by Liu Guogang (1979) and Yang Shengming (1979).

One important aspect of this debate on inter-enterprise relations is on the role of competition between enterprises. The dominant view is now in favour of competition between enterprises on the basis of product quality and to some extent price, as expressed in a recent *People's Daily* article (RR 6/6/80) which stated that "The Communist Party's policy is to protect competition". This has been put into practice in the State Council's regulations on competition issued on 17 October 1980 (SWB, FE/6564/BII/11-13). However, this view has not been without its critics. For example, Jin Mingjun has argued that although the law of value should operate in a socialist economy which is a "commodity economy based on public ownership" (1979: 20), this does not imply competition between enterprises which would lead to "major imbalances in the national economy" through production for enterprise profit rather than in line with the plan as well as corrupting "the ideology of the Party organization and that of workers and staff" (1979: 21). In contrast, advocates of competition see these as possible side-effects which can be avoided or regulated through the intervention of state planning (RR 6/6/1980).

Thus, there has been a move towards self-management ideas in the area of inter-enterprise relations, with the idea of market regulation in many areas, though ultimately subordinate to overall state planning. However this trend has not been without its critics.

(c) *Intra-enterprise organization*: Whilst rights of participation in decision-making and the revenue of the enterprise are fundamental to economic theories of self-management, recent discussions in China have concentrated on the second aspect of participation. It is now officially argued that 'payment according to work' is a socialist principle, rather than an instance of 'bourgeois right' and hence a remnant of capitalism which should be limited — the view of the 'Gang of Four' (see, e.g., Zhang Chunqiao 1975). Thus, it is now argued that workers' pay should be influenced both by individual performance and that of the enterprise. This implies a retention of part of an enterprise's profit for bonuses and collective consumption (e.g., housing and improved nursery facilities) — in addition to any retention of profit for further expansion of production. This, it is argued, will promote production and increase workers' commitment although such bonuses, etc, should still be secondary to 'moral encouragement'. This implies a significant shift in emphasis from the 'Maoist' view.

On the question of internal enterprise democracy, this has been very much secondary to concerns with improving the quality of management, clearer definitions of responsibilities and increasing the authority of managers and technical experts. It is seen as potentially important as a means of generating worker commitment and mana-

genial legitimacy, but generally has not been explicitly integrated into economic thinking.⁹ However, some economists have argued that this is a more essential aspect of economic reform, one which is necessary to prevent the type of privileged stratum of managers foreseen in the 'Maoist' critique of self-management. Those who have tackled this question argue (a) that the effective influence of workers can be increased with greater enterprise autonomy, and (b) that for overall economic reform to be successful, it must be accompanied by a democratization of the enterprise. For example, Jiang Yüwei (1980: 70) argues that "an enterprise should be a body controlled by all its workers and staff members" in which case "monopolization of power by its leaders and their degeneration will only occur in isolated cases, for which there are remedies". And Liu Guogang (1980: 11) argues that, if it is to be successful, "economic restructuring must correspond with political restructuring or it will all be in vain. Here, it is important to initiate political democratization from below".

This brief examination of the changes in dominant Chinese economic theories shows that there has been a clear but by no means total shift away from the 'Maoist' critique of self-management towards a more sympathetic position. These changes in economic theory have been associated with reassessments of other socialist economic systems. As the previous assumption of a single model of a socialist economy has receded, dialogue over future policy has increased with the main debate being between (Liu Suinian, 1980; Gao Zhihua, 1980):

- (a) a partial modification of the present system which would maintain control planning over many areas but increase some aspects of lower level and enterprise control over planning as well relying more on economic controls and criteria. This is seen to be relatively easy but is argued not to be a solution to many current problems.
- (b) a decentralization of planning to the provincial level except in a few key sectors, e.g., energy, some transport and arms production. This has however been criticized on the grounds that "Regional differences will be further accentuated" (Liu Suinian, 1980: 15), that more decentralized planning will limit enterprise self-management and that it will harm the overall balance of the economy. (This appears similar to the result of 1957 reforms in the USSR though these are not referred to in Chinese articles.)
- (c) integration of overall planning with market regulation, with planning focussed on "intermediate and long-term projects" and macroeconomic regulation, whilst enterprises would have much greater autonomy and "as little interference from above as possible" (Liu Suinian, 1980: 17) although the prices of "vital goods" would be regulated. Such a model is similar to that of Hungary since its economic reforms in 1968, though there is perhaps more stress on

⁹ This concern with the mechanisms of inter-enterprise coordination preceding concern with internal enterprise democracy appears to be similar to the situation in Yugoslavia in the 1950s, according to comments on this paper by Branko Horvat and other Yugoslav economists at the Istanbul Conference.

the need for worker participation in management and less on profit-related management bonuses. The main perceived problem is the need to change established structures of economic planning.

(d) a fully 'self-managed' market socialism along Yugoslav lines. This is no longer regarded as a 'revisionist' model as it was before 1976, but on the other hand appears to have little support amongst Chinese economists as an overall system. This is related to the perceived need for planning as the basis for determining the direction of economic development, with the market as a regulator in the shorter-term and on more detailed questions. Thus, this model, although of theoretical interest, is unlikely to be widely advocated by economists, although the democratic aspects of the Yugoslav system have been stressed by some dissident publications (for example *Hailanghua*, 1979).

To summarize this section, there has been a major shift in the dominant theoretical approaches in Chinese economics, with those who lost the debates in the late 1950s and early 1960s now in a very influential position. One implication of this and the lack of discussion of such issues over the decade 1966-76 is that the ground of the 1960s economic reform debates in the USSR and Eastern Europe is only now being covered, though with the benefit of seeing its problems and results. So the debate is by no means over at the theoretical level, with major moves having been made towards self-management ideas — provided they can be ultimately subordinate to planning at the macroeconomic level.¹⁰ But as the next sections shows, these theoretical positions are well in advance of the actual changes made.

THE IMPLEMENTATION OF NEW POLICIES

The changes in the theoretical and policy proposals in the sphere of economic management have been followed by innovations in many areas. These are still limited — and whilst the ideas of economists are generally in favour of more far-reaching economic reforms than in the USSR, in practice the changes have not gone beyond those implemented in many other 'socialist' economies. This section therefore outlines the implementation of new policies in areas related to self-management attempts a limited assessment of their success and limitations, and makes some comparisons with Eastern Europe and the USSR.

One of the major changes has been in the area of *industrial and service cooperatives*. These have been given much greater prominence in official policies and have been released from certain aspects of

¹⁰ This position is much clearer at the theoretical level than in practice. Theoretically, it is often formulated in terms of the use of market forces in simple reproduction and planning for expanded reproduction. However clear this distinction in theory, it is much less so in practice — and it would be reasonable to conclude that this problems has not yet been solved in China, even if a solution is in fact possible.

state control and planning. The numbers employed in such collectively-owned enterprises rose from 19.2 million in 1977 to 22.7 million in 1979 (China State Statistical Bureau, 1979 & 1980). This is partly due to the expansion of existing cooperatives and widespread setting up of new ones in urban areas, primarily as creators of jobs for unemployed young people. These new cooperatives do subcontract work for state factories, process waste products, make light industrial and craft products and fill gaps in the provision of urban services (e.g., rail station porters). The rate of expansion has been impressive, for example in Beijing in the second quarter of 1979, 1200 cooperatives were set up employing 67,000 young people (Lu Zhenhua & Liu Chiang, 1979).

Cooperatives have also had their autonomy increased after often being quite limited in the decade since the Cultural Revolution. Previous regulations which forbade the payment of higher wages than in state enterprises for similar work and limited fringe benefits have now been rescinded; they are being given greater priority in the allocation of energy and raw materials; the influence of planning bodies over their activities through 'administrative means' is being restricted — and the retention of profits has been increased from almost zero to around 20 per cent according to Lu Zhenhua and Liu Chiang (1979). In Shanghai, previous regulations dating from 1967 forbidding distribution of part of profits as a bonus have been revoked (Xing Yichu et al, 1979). And in the case of a Harbin furniture factory publicized by the *Workers' Daily* in July 1980, shares with a return related to capital invested and profitability were offered to the workforce (Walker, 1980). The 'self-management' of cooperatives has therefore been significantly increased at the same time as this sector is being vigorously promoted by the government. However, important in terms of some areas of light industry and services, the state-owned sector dominates Chinese industry and it is changes in this which are the most significant. These will be discussed in four areas: expansion of enterprise autonomy, the extent of market regulation, specialization and rationalization, and worker participation.

The expansion of enterprise autonomy has been one of the main changes in the state sector. The 'Maoist' model of industrial planning stressed a combination of initiative from below and flexibility on the part of planners with strict limits on enterprise autonomy and payment according to economic results — to encourage the fulfillment of overall targets rather than the limited goals of the enterprise. Whilst present policies still stress the dominance of the plan, there is a greater reliance on enterprises pursuing their 'own' interests. In this respect, China now differs little from the USSR and most of Eastern Europe, although managerial incentives are much lower in China. From late 1978, funds for bonuses and collective welfare were formally established as 5 per cent of the wage fund if all plan targets were met (and 3 per cent if half were achieved, *BR* 2/1979: 10), whilst industrial departments received from 5 to 15 per cent of above-plan profits which could then be redistributed to particularly good enterprises.

However, this limited change, together with others increasing bonuses for workers, represents only a minor alteration in the overall framework. A much deeper change was begun in Sichuan Province in October 1978 in its system of expanding enterprise autonomy in a radical way (at least in Chinese terms). Sixteen enterprises were selected for the initial trial, and this was expanded to 100 in 1979 and 300 in 1980. These enterprises were given '14 rights' including retention by the enterprise of 15—25 per cent of above-plan profits, no tax on profits from technical innovations for two years, direct negotiation with foreign firms, enlarged depreciation funds, market sales of some above-quota production and to contract for extra work direct with other enterprises outside the state plan. These 'trial enterprises' have been extended to cover most areas of China, especially since July 1979 when the State Council issued "Five Documents" on economic reform. However, these are in several respects less radical than the Sichuan regulations, although the latter still remain in force and assurances are given that "any change... would be in the direction of further broadening the power of the enterprises instead of curtailing it" (Zhao Ziyang, reported by Ren Tao et al, 1980: 210).

The results reported for these trial enterprises are summarized in Table 2, which shows generally that compared with non-participating enterprises the results of those moving in the self-management direction have been relatively good. Although this general conclusion probably is reasonable, caution must be exercised in assessing these reported results as:

- i) the enterprises involved are not 'typical' as they tend to be both large and relatively profitable. An analysis of the Sichuan figures provided by Ling Chen (1979) shows that although the 84 province-controlled enterprises produced 18 per cent of provincial output value, they account for over 40 per cent of profits, a proportion not greatly affected by the different performance since the experiment. Nationally, in early 1980 about 4 per cent of the total number of state enterprises in China were involved in the experiment but these accounted for about one-third of all industrial output and about 40 per cent of profits (*BR* 22/1980: 4). So on the one hand, they are not a random sample of enterprises but on the other they do form a significant part of the national economy.
- ii) specific criteria appear to have been used in their selection, including profitability (24 per cent of China's state factories were reported to be loss-making by Hua Guofeng, 1979: 12), the existence of cost accounting systems and "fairly normal" production and management systems. In addition, there is a reorganization of management before becoming part of the trial. Some of the achievements of these enterprises may therefore be more directly related to selection criteria and reorganization than to expanded self-management.
- iii) the reported results in some cases have an optimistic bias due to the exclusion of enterprises which, although selected, did not achieve plan targets (e.g., the figures in Table 2 for Jilin, see note 10). Another problem is that some of the reported results span a

TABLE 2: Performance of 'trial' enterprises in China (1979)

Province	Start of Trial	Period of Information	No. of trial enterprises*	Performance: increase over previous years of	Remarks & comparison with growth of average or non-participating enterprises.
				Output Profit	
SICHUAN ¹	Oct. 1978 ¹	Jan—Oct 1979	84	+14% +22%	Output: 1.14 x non-participating Profit: 1.45 x non-participating ¹
BEIJING ²	July 1979 ²	July—Dec 1979	366 ³	+18% ⁴ +24%	—
HUBEI ⁵	1979 (?)	Jan—Dec 1979	153	+29% +50%	Output: 1.6 x average Profit: 2.4 x average
SHANDONG ⁶	1979 (?)	Jan—Oct 1979	57	+17% +18%	Output: 2.4 x average Profit: 4.0 x average
YUNNAN ⁷	1979 (?)	Jan—Nov 1979	100	+12% +41%	—
JILIN ⁸	Sept 1979	Jan—Dec 1979	29	+11% ?	Profit: 1.15 x average
GUANDONG ⁹	Sept 1979	Jan—Nov 1979	100	+9% ?	Output: 1.63 x average Profit: probably small fall compared with —8% average
TOTAL ¹⁰	(Oct 1978)	Jan—Dec 1979	2963	+12% +20%	Output: 1.44 x average ¹¹

* = number for which information available; see sources and notes below for details.

SOURCES AND NOTES TO TABLE 2.

¹ Ling Chen (1979) covering the 84 province controlled enterprises out of a total of 100 in the experiment in 1979. Other figures give slightly higher performance figures but a much higher comparison with the province average (1.57 x instead of 1.14 x) by taking a figure of +9% average output increase for the province for January to June 1979 (Ren Tao et. al., 1980; BR 32/1979; SWB FE/W1059/A/1). This might be a discrepancy or a result of a particularly good performance in the non-participating enterprises in the third quarter of 1979 compared with 1978.

² Ren Tao et. al., (1980).

³ SWB (FE/W1071/A/2), with the performance figures probably covering all centrally controlled ("state") enterprises. However 87% of these were trial enterprises (BR 7/1980) implying that this figure would not be much different for trial ones only.

⁴ Beijing Ribao (1979).

⁵ SWB (FE/W1071/A/10)

⁶ BR (7/1980) for all of 1979.

⁷ China Report 53 (1980); SWB (FE/W1077/A/1)

⁸ SWB (FE/W1060/A/1), the figures being for 57 of 58 trial enterprises.

⁹ SWB (FE/W1073/A/1), which states that there were "two groups" perhaps implying a total of 200.

¹⁰ SWB (FE/W1076/A/1—2), covering the 29 of the 30 enterprises in Changchun Municipality which fulfilled plan targets, thus giving the figures an upwards bias.

¹¹ Ye Gong & Chu Xin (1980). They state that there was a marked change in the trial enterprises between August and November 1979, with output up 22% over August and profits 19% up over the level of the first 8 months. Of course this could have been due in part to seasonal or other factors.

¹² BR (22/1980).

¹³ Based on overall industrial growth of 8.5% in 1979 (China State Statistical Bureau, 1980).

period which includes some time before the implementation of the trial. There have been reports of fairly dramatic changes after profit retention in Guangdong (see note 11 to Table 2) and in Beijing (Peking) where at its No. 3 Knitwear Mill, planners' requests for an increased profit target were met by "apathy" on the part of managers and workers until a profit retention scheme was introduced (SWB, FE/W1071/A/2).

iv) the figures are only for relatively short periods and so do not take account of the medium-to-long-run dynamic effects of greater self-management as much of the improvement could be the result of better capacity utilization. Thus longer-term generalizations are dangerous, both for this reason and because the links between

enterprise autonomy and internal democracy (two essential elements of 'self-management' theory) are not yet clear, as is discussed below.

These reforms are currently seen as the first step in a more thorough change of economic management mechanisms, but it has been emphasized by the present Premier that due to the overall 'readjustment' of the economy, "there should be no large scale reforms yet this year and next. In these two years (1980 and 1981), the present method of limited reforms should remain the basic rule... Of course in some cases there may be continued experiments..." (Zhao Ziyang, 1980: 2). Thus, the present reforms are seen to be a prelude to a more widespread and thoroughgoing reform of the economic system to be undertaken in the years after 1982.

Compared with Eastern Europe, these by no means go as far as the Hungarian reforms of 1968 — but are rather similar in both content, method of implementation and results to those in the USSR from 1966 to 1970. There, profit retention was increased for similar uses as in the Chinese reforms (i.e., for bonuses, collective consumption and welfare, and reinvestment); the system was gradually introduced over a number of years with similar criteria for inclusion (i.e., they were large and profitable and both output and profits increased in the trial enterprises compared with others, again with profit rising faster than output). In fact the comparison of the first year of significant experimentation in both countries in Table 3 shows striking similarities:

TABLE 3: Results of initial economic reform in China (1979) and USSR (1966)

Country	Year	No. of enterprises	Output increase*		Profit increase*	
			Trial	All	Trial	All
CHINA	1979	2963 (4%)	12%	8.5%	20%	?
USSR	1966	704 (2%)	10.5%	8.5%	23.3%	10.6%

* = increase over previous year

Sources: Lavigne (1974: 63, 64), BR 22/1980

So up to now, the results appear to have been surprisingly similar — and the reforms in the USSR were gradually expanded to cover 87 per cent of enterprises by 1973 but during the same time lost impetus at least in part due to the lack of corresponding changes in related systems and control mechanisms — according to Lavigne (1974: 65), "The main reason... was undoubtedly that reform had been grafted onto a system of economic planning and control which had not been modified in any radical sense". It appears very likely that the same would happen in China if reform is restricted to its present state, an opinion shared by some Chinese economists, managers and politicians (e.g., Zhao Ziyang, 1980; Lin Zili 1980, SWB FE/W1050/A/1—2).

One of the major continuities between the innovations in China and the previous system (and that of the USSR) is the dominance of planning rather than the market in determining the flow and prices of inputs to and outputs from the enterprise — in contrast to the Hungarian and particularly the Yugoslav models. This applies both to goods and to labour. In China this is clearly one of the areas in which changes will come in the future if reforms are to be extended. In general, the position in both trial and other enterprises is that above-plan production not required by state commercial organizations can be marketed direct to customers,¹¹ although the trial enterprises may have rather more effective autonomy as they are freer to make the arrangements needed to do this and have a rather greater incentive to do so. In addition, there has been a relaxation of strict planning of prices in some areas with the introduction of 'negotiated prices' for some items. It is difficult to assess the exact extent of the changes so far as many of them appear to be *ad hoc* measures rather than part of an overall long-term price policy. However, indications are given by reports that about a fifth of Beijing's industrial output was sold through market channels (SWB: FE/W1070/A/8) in 1979, that 19 per cent of national motor vehicle output is by direct contacts (SWB FE/W1070/A/1), and that in Beijing about 5 per cent of total textile output was sold in a similar way, e.g., through 'factory counters' at department stores and in factory-run shops which also serve as market research tools (SWB FE/W1054/A/2—3, W1067/A/3).

Whilst such 'market' sales may still be at fixed prices, there have been moves to decontrol some prices — primarily of capital goods, intermediate products and some less important industrial consumer goods. In the important First Ministry of Machine-Building's sector, for example, 16 product groups have been designated as ones for which up to 20 per cent price reductions can be made. The products involved include vehicle parts, some machine tools, meters and other electrical goods. The reasons for the importance of market forces in the capital goods sector (one which in the past has been stressed as an area where goods are not commodities, e.g., Stalin, 1952) are related to the crisis in the Chinese machine-building sector as a result of the curtailment of capital construction in the 1979-81 period, described by the *People's Daily* (RR, 8/2/1980) as the "greatest problem" in the present 'readjustment'. "Over 20 per cent of the First Ministry's production in 1979 was through 'market regulation' (*Gongren Ribao*, 8/2/1980) and in various areas the proportion is much higher — for example in Guangdong Province a third of production was outside the plan (SWB W/1076/A/15) and in Wuxi County, a model of rural industrialization, 60 per cent of output was sold through the market (RR 8/2/1980).

¹¹ This is a point of significant difference between current Chinese reforms and those of the 1960s in the USSR. At present, I would argue that this has made little overall impact on the results of economic reforms so far, except in preventing large cutbacks in production in areas hit by readjustment policies. But if considered as the first stage in more far-reaching reforms, the potential impact in the future is of course much greater.

So in the area of product markets there have been some changes, especially in areas hit by overall readjustment policies. In the area of labour supply, in the past there have been nationally fixed wage scales (with some local adjustments) and state allocation of labour through special bureaus. Choice of jobs has thus been made primarily by the state, and enterprises cannot officially compete for labour. The main change has been a relaxation of this system, initially in small trials in Beijing and Jiangsu and now on a more widespread basis. Also there is a system of competitive exams for jobs, with some choice by enterprises and applicants, in some areas (BR 33/1979: 7). However, much of the basic system of state labour allocation remains. To sum up, there has been some extension of reforms to associated control and allocation systems but so far of a relatively minor nature except in particular problem areas.

One implication of greater autonomy of enterprises and responsibility for financial results, as well as increased use of market forces, is the pressure on less efficient units. In cases where the price system reduces the profitability of a sector, this is not so much of a problem as in cases of economically inefficient plants within a sector. Two general policies affect this — rationalization and the formation of specialized 'corporations'. It has been officially estimated in (Dong Furen, 1980: 46—7) "incomplete statistics" that over 3600 plants were merged, closed or had their product lines changed in 1979. Other reports confirm this general picture but indicate that the number of closures may be relatively small, e.g., only 8 of the 192 Liaoning machine-building plants rationalized in 1979 (SWB FE/W1078/A/11—12), but in other cases it may be rather greater, e.g., 85 of the 269 rationalized plants in Guangdong (Zhu Qi & Li Lita, 1980).

The formation of specialized corporations to manage particular sectors, usually based on one or more large factories, has been another aspect of these policies, with the aim of specializing the production of its member plants — a change which is argued to improve efficiency. In some cases, it appears that these corporations are being given the status of enterprises and that changes in this direction have been given greater priority than enterprise autonomy, e.g., in the Shanghai textile and metallurgical industries, and are argued to be a better way of "expanding the power of self-management" as "it is conducive to overall planning and reallocating productive forces in a whole trade based on specialization and coordination" (BR 23/1980: 5—6). If expanded, such a model would come into conflict with self-management at enterprise level — and lead to a situation more along the lines of East Germany and some sectors in the USSR.

The final set of changes relevant to self-management theories are in the area of internal enterprise organization, where the key questions relate to worker participation and influence in decision-making. The system arising out of the Cultural Revolution involved a variety of participation mechanisms, with some worker influence over the 'Revolutionary Committee' — the main management body — as well as in such bodies as elected 'workers' management groups' which oversaw some management work and were consulted on some decisions (Bettel-

heim, 1974; Lockett, 1978). These appear to have partially degenerated or been reduced in scope during the 1970s. In the last couple of years, Revolutionary Committees have been replaced by state-appointed Factory Directors, also subject in overall policy to the Party Committee — indicating a significant assertion of managerial authority; and a long way from the self-management model. However, there have been moves towards greater democracy in two main forms: election of managers and supervisors, and workers' congresses. The former was initially confined to levels up to the workshop or department in a few enterprises but has been gradually extended and is planned to be the normal procedure within a couple of years (BR 47/1979: 4). It is also said that it will be extended to include factory directors in the future (BR, 18/1980: 25—26), but so far this has been limited to a very few enterprises. A slightly more widespread practice is that of opinion polls on managers — with a typical system being that if there is less than 30 per cent approval, managers must resign, and if between 30 and 50 per cent, they must state how they intend to improve. Cases are quoted of managers being removed by this method, e.g., 4 of 21 in a cement works in Shoudu (BR 22/1979: 6—7). The link between this election process and expanded enterprise autonomy is not direct at present (as self-management theorists suggest) — for example in Sichuan only 30 per cent of trial enterprises had adopted this system (BR 12/1980).

Workers' congresses also exist only in a minority of enterprises (1/5 in 1979 according to Lin Pei, 1980) and consist of elected workers' representatives, perhaps on the basis of one for every 20 or so workers. They are primarily consultative bodies which have little direct power and meet infrequently, e.g., two or three times a year. However, in this case there is a more direct link between workers' participation and enterprise autonomy as the congresses are argued to be the appropriate body to decide on the allocation of the retained profit, especially in the area of collective welfare and consumption benefits (notably housing) according to State Council rules (BR 2/1979: 10). Their influence has been difficult to assess, although cases have been given of their rejection of management proposals (*Xinhua*, 28/5/1980: 24). On the other hand, enterprise autonomy might well be associated with both lower benefits and worse conditions in the case of less successful factories, such as the Hungarian one described by Haraszti (1977) where remote managers stressed "collective sacrifices" by workers and bonuses were low or nonexistent (this factory was later reorganized). Thus, although so far the democratic internal organization of the enterprise has not been carried far — and in several respects is less than that in the post-Cultural Revolution period, it is possible that they will be extended in scope and become more directly involved in influencing managerial decision-making, as advocated by Li Pei, (1980), for instance, in *People's Daily*, who also stressed the problem of whether they would actually be seen as useful by workers if their role was not extended. One potential example of this extension began in autumn 1980 with the introduction of a "factory director responsibility system under the

leadership of the congress of worker and staff" in five Beijing factories, a system which appears to be rather similar to the Yugoslav one (SWB FE/6565/BII/3).

This brief survey has shown that the general trend in Chinese industry has been towards the self-management model in many respects and that present policies are to extend this. In the short run, they have had some successes on similar lines to previous reforms in the USSR and Eastern Europe. But at the same time they led to a variety of problems, some more serious than others, including:

- (i) *problems over 'arbitrary' realization of profits:*
 due to the present price system, overall profitability often reflects planned prices more than efficiency (e.g., in Sichuan profits are 0.7 per cent of costs for coal mining but 69 per cent for electricity production — according to Ren Tao et. al., 1980: 212). These planned prices have reflected social goals but are inappropriate if profit is used as a main efficiency indicator — implying either large scale subsidy (used in Hungary where subsidies to 'companies and cooperatives' use 18 per cent of the state budget; *News from Hungary* 1980/1) or a major reform of the price system. Division of profits between commerce and industry is a related issue.
- (ii) *too much profit-maximizing behaviour:*
 in cases where this involves underfulfilling plan targets, choosing articles profitable as a result of price anomalies, or increasing prices openly or covertly in direct contracts. This has enabled some enterprises to pay very high bonuses, which are seen as unfair, and against which some moves have been made. The use of various forms of corruption, e.g., lavish entertainment of purchasers, has also become apparent in some cases.
- (iii) *price inflation:*
 whilst the state has increased some agricultural products prices and compensated urban workers with a flat rate wage rise (similar to Hungary), there has been widespread unauthorized raising of prices given the new climate and a situation in which some prices are 'negotiated'. This threatens the continuity of policies of consumer price stability for most goods and has led to many complaints. A National Conference was convened in March 1980 on the problem and in Sichuan, where some of the reforms have gone furthest, the province government issued regulations stating that "Industrial and commercial enterprises... are absolutely forbidden to resort to arbitrary price rises to the detriment of consumers' interests to turn loss to profit and pay out more bonuses" (SWB, FE/6386/BII/6).
- (iv) *increasing inequality between enterprises:*
 partly arising out of the price structure but also due to different resources and equipment. The present approach is to intervene by setting a "reasonable price", extra taxes or different rates of profit retention. But these are largely *ad hoc* measures and pose

the problem of the basis of price policy and the extent it should reflect social choices (as at present in terms of its broad approach though many prices are more arbitrary) rather than prices of production (even if these can be adequately calculated). Other related problems are those of lower living standards of those in non-trading units (e.g., school teachers), increasing regional inequalities and problems if some enterprises can sell similar products at different prices — one within the plan and the other outside.

(v) *restriction of information flow:*

the Chinese system of diffusion of technology has been reasonably effective in the past, but as the profitability of an enterprise becomes more important, the incentive to withhold information and technological innovation from others increases, unless it is converted into a marketable commodity. This, and the prioritization of supply to local firms has been reported (*Gongren Ribao*, 8/2/1980). On the other hand, the new systems aim to increase the incentives for enterprises to innovate.

(vi) *increased litigation:*

partly as a result of the setting up of a new legal system, there has been a growth of litigation between enterprises and in one case within a factory which based its bonuses, etc., on inter-workshop contracts with penalty clauses for late delivery (SWB, FE/W1051/A/1). But, of course, this can be argued to be fairer and in the long run more efficient than administrative intervention to resolve disputes.

These all indicate that the process of changing the economic management system does face many problems — partly of lack of 'fit' between the innovations in enterprise autonomy and the present labour and other systems but partly also the drawbacks of self-management and the use of the market. Whilst the former category might be expected to disappear in a transition to a coherent new economic system, the latter are likely to become more important. Thus, there is the basis not only of support for a new system, but also criticism of it and forces which restrict change — as happened in the USSR and elsewhere. The conclusions discuss these issues briefly in the Chinese context.

CONCLUSIONS: POSSIBLE FUTURE TRENDS

What are the likely future developments in China and will they be towards self-management? An answer to this question must be based on an analysis of the forces and groups likely to want such a change and their relative strength compared with those advocating different policies. Amongst those who favour the extension of self-management, some are more concerned with the mechanisms of economic management and the decisions made by the managers of enterprises, with their internal democratic organization seen mainly in terms of gaining commitment over and above that given by remunerative controls such

as bonuses. This *technocratic approach* has supporters in the leadership of the CCP, notably Zhao Ziyang (now Premier) and others such as Deng Xiaoping. These are backed by economists who see such changes as necessary in an advanced economy and by factory managers who want more independence and freedom from administrative control. In alliance with this seems to be a smaller and less influential line of opinion which stresses a *democratic approach*, arguing that internal organization is also crucial and that self-management experiments will fail if workers have little influence over enterprise decision-making. A clear exposition is by Li Pei (1980) — although this has support from some economists and Party theorists as well as being broadly in line with secondary objectives of those taking the more technocratic approach.

Against changes towards self-management one can identify a *conservative approach*, which sees such changes in economic planning as involving too many costs for uncertain benefits and which also can see the threat to existing "vested interests" of many cadres who might be more or less displaced by more far-reaching changes. This approach can be found amongst some sections of the CCP, e.g., those who would prefer much more limited reform with, say, the formation of specialized corporations rather than more enterprise autonomy. It can also be found in the arguments of those who advocate stricter central planning as the best way to readjust the economy. This type of opposition to major moves towards self-management is expressed by Cai Yanchu (1980), who argues that in the past enterprise autonomy and growth have been negatively correlated, that autonomy undermines central planning and threatens the balance and readjustment of the economy and that the promoters of autonomy are in fact trying to find ways of boosting investment when present policy to limit it.¹² A second type of opposition is that based on a *radical Maoist approach*, particularly in relation to the argument that self-management would involve the creation of a new exploitative class. Such an approach has not been in evidence in official publications, although it is likely to exist in some areas.

Thus, in contrast to the USSR and some East European countries, it does appear that moves towards greater self-management do have support amongst a significant section of the political leadership as well as managers. Though this is predominantly for technocratic reasons, there is some concern with democratic internal organization though this is subordinated to managerial authority and efficiency in many cases. From 1982 or 1983 it is not unreasonable to expect that serious attempts will be made to restructure the Chinese economic system (perhaps along lines similar to the Hungarian one) with a much greater degree of self-management than in the past (with its problems,

¹² He does argue for steady moves towards more autonomy but qualifies this with strong criticisms, e.g., (1980:13), "If they (enterprises) all demanded an expansion of their autonomy, we can imagine what kind of a mess we would be in".

too), but that there will be conflicts both between advocates of change and more conservative groups and between those who stress managerial authority and those more concerned with the democratization of the enterprise.

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Primena nove ekonomske politike daleko zaostaje za teoretskim promenama. Najznačajnija promena u ekonomskom sistemu je stvaranje većeg broja preduzeća sa proširenom autonomijom i pravom na zadržavanje dela dobiti. Analiza rezultata koje postižu ova pokusna preduzeća pokazuje da se njihovo poslovanje veoma brzo poboljšalo, iako to svakako ne može biti pripisano jedino uvođenju samoupravljanja. Ovi rezultati veoma su slični onima u SSSR-u neposredno posle privredne reforme 1965. godine. U Kini je takođe došlo do delimičnog uvođenja nekih od elemenata konkurencije između preduzeća, tržišnih odnosa i ukidanja kontrole cena. Isto tako, došlo je, posle 1978. godine, do porasta u stepenu formalne demokratije unutar preduzeća, što se ogleda u preduzetim koracima za izbore rukovodilaca preduzeća i davanju veće uloge izabranim radničkim savetima. Ipak, problemi koji prate takvu politiku pojavljuju se i u Kini: inflacija, nejednakost, uskraćivanje informacija i nedostatak usklađenosti sa sistemom cena.

Na kraju, u članku se razmatra dalji mogući razvoj. On će u najvećoj meri biti determinisan političkim faktorima. Pored toga, nasuprot SSSR-u i većini Istočno-evropskih zemalja, ekonomske reforme će najverovatnije biti proširene posle 1982. godine. Značaj tih promena, kao i veza između reforme i demokratije unutar preduzeća, zavisice od načina na koji će politički i drugi konflikti biti razrešeni.

EXPERIMENTS IN SELF-MANAGEMENT IN JAPAN

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INTRODUCTION

Increasing Interest in Self-management

Interest in self-management in Japan began to increase towards the end of the 1960's, when many socio-economic problems became obvious in the rapid growth of the Japanese economy.

Interest was shown first of all from the standpoint of the labour movement and the socialist movement.

Immediately after the Second World War, there were more than a few factories and enterprises which the workers controlled or managed by themselves, but towards the end of the 1940's, workers' control or workers' management mostly failed with the revival of employers' power. Then, during the 1950's, management endeavoured to attain industrial peace for the purpose of rationalization, innovation and higher productivity. The labour movement aimed at organizing an anti-rationalization struggle, but generally speaking it did not succeed and many of the trade unions, especially among the big businesses, opted for joint consultation with management. In the 1960's, especially the second half, new situations occurred: workers' indifference to their unions and increasing feelings of alienation resulting from new technology. Their income became higher but they were dissatisfied at work. At that time a new type of labour movement, different from the existing one that had been engaged mainly in economic problems, began to emerge: the self-management movement. Some of its supporters were influenced by the French idea of "the new working class" as well as by the trends of the French Socialist Party; others sought workers' control in the sense of Marxism-Leninism. This trend operated in tandem with critical attitudes toward the Soviet system among Japanese socialists in the 70's. It seems that their views were more "imports" from abroad (France, Yugoslavia or Gramsci's writings) than outgrowths from the realities of Japanese society. But

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