

# The Erosion of Economic Security in China

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In China, economic difficulties are rooted in its economic institutions as well as in political turmoil. According to a Chinese economist writing in the Beijing Review in 1981, the wages of workers (adjusted for inflation) in state enterprises in 1978 actually were slightly lower than they were twenty years earlier. Increases in industrial output over those twenty years came about largely by adding more workers to the economy, not by increasing productivity.

Besides the Cultural Revolution, which lasted from 1966 to 1976 and which greatly disrupted the economy, the stagnation in wages has its roots in good part in what we have called the social protection system. A recent study by Professor of Economics D. Gale Johnson at the University of Chicago has specified China's economic institutions that have contributed measurably to its economic difficulties. Some of these institutions form the core of China's social protection system.

Although the iron rice bowl system affords jobs and financial security to workers, it also retards economic growth. If workers receive life tenure when they start a job, then employers are bound to keep them even if they do not require their services or if they view their services as inadequate. The iron rice bowl system thus undermines discipline and hard work and loads enterprises with surplus labor. The system clearly raises production costs. Insofar as it keeps workers in places where they are not needed, new or expanding enterprises cannot get workers they require. So in periods of full employment, the iron rice bowl stifles development.

Interest in egalitarianism rather than in productivity has motivated the wage payment system under which everyone has been paid from "the big communal pot". The result has been, according to leading economists in China, a stifling of workers' incentives and, thus, losses in output. So instead of motivating workers to produce, economic institutions were obstacles to hard work and high output.

Lastly, the vast network of price subsidies on consumer goods and services has interfered with economic growth. As an example, the price that the state has paid to farmers for agricultural goods have been kept low relative to those for industrial goods. This has meant that returns to farmers from production, and thus the rewards for hard work, have been low by comparison with those for industrial goods. Lower rewards have meant lower farm outputs. Secondly, the state has kept consumer prices for foods below what the state had to pay for them. This results in overconsumption of foodstuffs, another source of economic waste. Lastly, the gap between what the state pays producers and charges consumers has to be made up by state subsidies. In one way or another, something akin to taxes must cover the cost of these subsidies.

In sum, China's social protection system is made up of a critical set of economic institutions. These institutions have been cornerstones of prevailing political thinking for several decades. The judgment of economists in China is that while institutions have resulted in a fair degree of security (and equality), they also have been costly in terms of economic growth.

China's problems with its social protection system are serious. The challenge facing reformers is great in China because of the centrality of its protective institutions and because of the repercussions that must come from changes. As workers are freer to make choices, employers will be allowed to choose their own workers. Moreover, new workers will not immediately and automatically receive life tenure on their jobs but will be enlisted on a short-term contract basis. Workers will be free to leave their jobs for new ones, and employers will be permitted to dismiss workers for disciplinary reasons and not renew the contracts of unwanted employees. This dramatic set of reforms lessens security by increasing the probability of unemployment and leads to a more productive use of labour.

New wage policies are replacing those that shape the communal wage pots. Enterprises will be able to retain profits resulting from brisk sales and efficient production, in part to reward workers with higher wages and more ample benefits. Within such successful enterprises, workers who are particularly productive are going to be given average promotions and wage increases. Along these lines, wage incentive systems are being studied with the intent of pushing productivity upward. In a stark and revolutionary manner, egalitarianism in wage policy is being abandoned. "From each according to his work, to each according to his contribution". This is the guiding principle for wage policy. The big communal wage pot is being cracked.

A brand new and startling reform is that proposed for the administration of employee benefit programs. A central feature of Chairman Mao's China was the association with the factory of the great variety of benefit programs. Health care clinics, day care centres, apartment houses, cafeterias, and baths, all are frequently part of the factory establishment. Thus, the factory encompassed virtually all aspects of life. A new experiment is the unhinging of these ancillary activities from the work place by having community agencies develop health clinics and day care centres.

Should the reform go forward, a worker no longer will rely on his factory for everything he needs so that factories can concentrate on the production of goods. Therefore, a new sector must develop to manage services previously run by enterprises. This will undoubtedly undermine a sense of security but, at the same time, make it easier for workers to change jobs because doing so will not entail altering every aspect of life. Another revolutionary reform has been set in motion.

It must be stressed that the three reforms just noted are in the early stages of implementation. How far they proceed is unclear, and problems may be anticipated.

## THE CHANGING PATTERN OF CHINESE AGRICULTURE

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With her vast territory (9,560,500 square kilometres) and enormous human resources, China has a long tradition of intensive farming. More than 800 million of her total population of over one

## CHINA'S NEW "RESPONSIBILITY SYSTEM"

Since 1979 a major and fundamental change has been made in China's rural development policies, with the introduction of what has been termed the "responsibility system". Increases have been recorded in rural incomes, which is attributed to the new contractual job responsibility system, now instituted everywhere in China. Under the system, collective land is farmed on a household basis or by small but efficient groups instead of teams as in the past. Instead of being told what to do by team leaders every morning as in the past, peasants now plan their own programmes. They are able to retain whatever is left after turning over a certain amount of the harvest to the collectives, and fulfilling delivery and sales quotas.

The basic components of the programme are:

- \* Greater decentralisation of production and investment decisions to enterprises and farms,
- \* Stronger incentives, with more direct links between material rewards and the work of households and individuals,
- \* Greater use of market mechanisms in allocating resources.

Although the reforms extend to all aspects of China's economy, the most

striking changes so far have been in the rural areas. One question being asked, however, is whether although impressive results have already been produced under the new system, it can retain the advantages of the former system in financing social services for the poor and in organising large scale investment.

We publish here three different discussions of the new system and how it works. Two of them are Chinese viewpoints and one that of a leading American journalist/historian who first visited China in 1938 and several times since then. Following a two month intensive tour of China recently he chronicled the dramatic changes occurring as they struck him.

billion work on the land, and this abundance of labour has meant that mechanization of agriculture has proceeded cautiously.

In recent years new trends have emerged. New rural policies adopted in 1979 have resulted in modernization based on diversified development of agriculture, animal husbandry, fisheries and sideline enterprises which produce basic goods such as bricks, bottles and lowcost clothing and employ about 30 million rural workers.

Perhaps the most important change has been the introduction of the "responsibility system" which has led to a remarkable increase in farm productivity, even in regions where agriculture is most backward, and the last three years have been notable for bumper harvests.

In the past, the method of sharing out the fruits of the harvest caused dissatisfaction among the peasants who felt that their labour was not being fairly rewarded; productivity remained stagnant or even decreased.

Under the new responsibility system each farm household contracts to farm a certain area of land and to deliver a part of the crop to the State and to the commune, keeping whatever they grow above the quota. This means that each farming household is free to manage its work itself and to assume sole responsibility for its profits or losses. At the same time land

and the means of production remain the property of the collective body.

The new system is already evolving. Agricultural co-operatives have been established which handle specialized production, such as raising ducks or fish, or offer specialized services, such as sugar refining and transport services.

Never before have so many Chinese peasants had so much money. Today, more than 60 percent of all the nation's cash is circulating in the countryside. By the end of 1982, peasant families had 28.2 billion yuan (\$ 15.2 billion) on deposit in banks, an average of more than 30 yuan for every man, woman and child in the rural areas. To this must be added the 32.3 billion yuan deposited by rural collectives factories and enterprises, making a total in rural banks of 60.5 billion. Five years ago it was only 25 billion.

According to preliminary figures released by the State Statistical Bureau, the cash income of peasants increased at an average annual rate of 19.4 billion yuan in the four years 1979 to 1982. This is 6.9 times the average annual increase for the twenty-six years 1952 to 1978.

A survey of 18,000 peasants households in twenty-six provinces, municipalities and autonomous regions showed that the number of families with an annual per capita income exceeding 300 yuan grew from 2.4 percent in 1978 to 22.6

percent in 1981, the most well-off families being those with special skills — raising chickens, ducks, fish or bees, or cultivating marketable herbs. The proportion of poor families with an annual per capita income below 100 yuan dropped from 33.3 percent in 1978 to 4.7 percent in 1981.

Chinese peasants spent 148 billion yuan on capital and consumer goods and building materials in 1982. This was an 11.8 percent increase over 1981 and 82.6 percent over 1978.

Under the responsibility system there has been a change in the pattern of mechanization with a decrease in demand for large and medium-size farming equipment and an increase in purchases of small, semi-mechanized equipment such as 3 to 8 horsepower compact tractors, processing machines, pumps, swathers, windrowers and wheelbarrows. Not only are these small size machines and implements cheaper to buy and easier to maintain and operate, they also adapt more easily than larger equipment to the varying natural conditions throughout the country and are more in keeping with the size of the household production unit and with the present technical, economic and cultural level of the Chinese rural worker.

Chinese peasant families now eat more rice and wheat than coarse grains and this change in their traditional diet is a clear indication of their improved standard of living. According to the State Statistical Bureau survey grain consumption per capita reached 256 kilograms in 1981, with rice and wheat accounting for 67 percent as against 49 per cent in 1978, the remainder being made up of corn, sorghum, millet and other coarse grains.

The survey also shows an increase in protein intake among rural families. In 1981 per capita daily protein intake was 66.82 grammes, 4 per cent higher than in 1978. Average annual consumption of pork, edible oils, poultry, eggs and fish all increased and many peasant families are now raising chickens and ducks for family consumption and sale.

The cost of living in the countryside is lower than in the cities. The majority of rural families own the houses they live in and do not have the burden of rent; they produce virtually all the vegetables, meat and poultry they need and a peasant family with a per capita annual income of 200 yuan is therefore considered to be tolerably well-off.

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