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China - Moganshan conference on economic reform - Field notes

March 20, 1982 - July 29, 1982

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WORLD BANK SYSTEM REFORM MISSIONTopics for Discussion and Study

A World Bank mission on system reform will visit China in July 1982. At that time the mission will introduce system reform experience in USSR and Eastern Europe and undertake some investigation of the current problems of the economic management system in China. Subsequently, the mission will offer oral and written advisory comments on problems of reforming the Chinese economic management system.

Considering that system reform is a very broad and complex subject, and that the mission will only be in China 3-4 weeks, it will be necessary to focus the work of the mission on a few issues. We agree with suggestions of the World Bank staff that the discussion and investigation of the mission in China be focussed on the problem of price reform. At the same time we believe the mission could also cover issues such as the relation between plan and market; wage reform; the proper relations among the state, the enterprise and the individual; and the extent of enterprise autonomy.

Some specific issues are as follows:

A. Price Theory, Policy and Control

1. What are the more reasonable theories of price formation? In the USSR, two theories of price formation are most common - production price and "two-channel" price - how are they applied in practice? How are profit rates determined for each product category? To calculate profit rates on capital, is the original value of fixed assets used or net value? All the fixed assets or only those used in production? Why is working capital excluded? *Shouldn't be (lost)*

How do principles of price formation in Hungary, etc. differ from the USSR? What are their advantages and disadvantages?

Has there been a role for shadow prices in actual practice? Is it practicable?

2. In determining prices for agricultural products and minerals, how should the issue of "differential rent" be considered? How is it handled in the USSR and Eastern Europe? *linkage*

3. What are the advantages and disadvantages of "above-quota incentive procurement prices" for agricultural products? Are there plans to eliminate such practices in the USSR and Eastern Europe? *also industrial goods*

4. Principles for budgetary subsidies for various products (including rent) in the USSR and Eastern Europe, the amount, method of subsidies and results of application. How should the subsidy policy be viewed? How to resolve the problem of too much subsidies?

What is the meaning of "dual" pricing? Conditions for application, actual use, and its advantages and disadvantages.

5. Problems of the link between domestic and international prices,

For which products is there a link between domestic market prices and international market prices in the USSR and Eastern Europe? For all products which are related to the international market? What are the various methods of establishing the link?

After a link, how to avoid the impact on the domestic economy of international inflation, structural change in prices and speculative price fluctuations? What policy was introduced in response to the changes in world market prices as a result of the explosive rise in oil prices in 1973?

6. In raising retail prices of consumer goods, how is the issue of wages considered? Is there a link between wages and prices? What are some of the actual practices and some of the lessons of experience?

7. Policy, methodology and measures of price control in the USSR and Eastern Europe. How to expand the role of price levers under planned management? What are some of the results?

8. What is the principle of price reform? How to initiate reform? How to consider price reform in conditions where large movements in prices are not possible? In undertaking price reform, what preparations are necessary and what are the conditions that must be established? Steps of price reform and time required.

Current situation and prospects of the reform of price management systems in the USSR and Eastern Europe. Comparison of the various price systems.

9. Interaction between price reform and system reform as a whole.

B. Problem of the Relation Between Planned Economy and Market

1. In the course of economic system reform in the USSR and Eastern Europe, how was the relation between the planned economy and market handled? Which countries handled it best? In which countries was the problem most serious? Why?

2. Methods of using the market mechanism under planned management in the USSR and Eastern Europe and lessons from their experience.

3. With the elimination of obligatory planning, how would the macro-economic balance of the national economy be achieved? How to ensure consistency between the enterprise plan and the national plan? Experience and problems in this regard in Hungary and Yugoslavia.

4. While retaining obligatory planning, is it possible to maintain macroeconomic balance through good planning methods, and also fully generate positive functions of the market? Experience and problems in this regard in the USSR and some Eastern European countries.

C. Reform of Wage System

What are some effective measures taken in the USSR and Eastern Europe to establish a link between wages of staff and workers with performance while allowing the state to control the wage (including bonus) fund?

Principle and practice of wage system reform in the USSR and Eastern Europe.

D. Reform of the Degree of Enterprise Authority

1. Theory and experience of expanding enterprise autonomy in the USSR and Eastern Europe. How to initiate expanded authority? What is the limit? After expanded autonomy, what measures should be used to strengthen control and management? What are the experiences and lessons to be learned?

2. In practice, how to resolve the problem of taking into account the interests of the state, enterprise and individual?

3. How to integrate the authority, responsibility and interest of the enterprise? In what areas is the responsibility system in use in the USSR and Eastern Europe? Their practice and experience.

E. Problems of Implementing System Reform

Sequence and steps in system reform (including the best way of initiating reform, whether to begin with links in the production chain or with links in the distribution chain). Timing of reform, preparation work for reform, leading organization for reform, experimentation, etc.

March 20, 1982

5 July 1982 Wolfson Brus, Kende, Struminski, Granick, Kosta, Et.

Agenda

→ Covered Chinese topics?

Review papers? Discuss ^{today} papers we've all read. -- 1 hr each.

General intro on mission. Discuss paper by paper.

Recess 3.00

Knowledge of USSR & EEp in China?

Review of individual papers.

Brus paper.

Implics for China?

corporate concentration... dangers of concentration killing competition.

In EEp ag, ignored ^{ecology} fact that peasant on a collective farm had to commute miles to work.

Kombinats in EEp can also be horizontal. Adv of K is makes planning much easier (not an econs of scale argt).

Chinese aren't going to introduce a market (Hungary) economy.

[? May ^{will} be willing to move from war communism to centralised model, but from centralised to (Hungarian) plan-market model.] [In which case the issue is why so other socialist ^{other socialist} countries have followed the Hungarian model .. of key interest to the Chinese.]

WB The message is that no systemic boundaries will be crossed in the near future. Why not?

(His 3 ~~main~~ points) .. is the problem inherent deficiencies of the H system, or extraneous factors?

And is one of these factors USSR counter-pressure? (No.)

Shouldn't we give more support to success and stability of H model (i.e. yields results and doesn't degenerate into ~~another~~ capitalism).

[The withering away of the state sector.]

Wood

WB Is a response to Chinese questions. No general comments. Concept of choice v. diff to convey to Chinese .. a hence opp costs.

Kende Excellent, but surrealistic .. ∴ actual conditions of China. EEp is difficult ... esp organisational framework. Scientific truths out of context.

Struminski They asked for it!

Brus
Wood
Struminski

Kende
Granick
Kosta
Linn

Cover
all
in
the
morning

Brus
Struminski
Kende
Kosta
Granick

Wood
Theory

Linn
Chinese
reality.

EEp
reality

R. Portus article: hidden inflation in socialist economics is not aggregative ^{but} ~~macro~~ microeconomic.

[200% too long -- i.e. very condensed]

Granick Already 80% too long, & Kende's suggestions would make it 50% longer. A straight n-c view -- traditional and useful.

Kosta Not surrealistic. Give more examples. Abandon first 5 pages as unnecessary -- could start on page 6.

EL Rehn with Struminski.

Struminski

WB Emph that non-market-clearing prices are absurd. Also that in H prices didn't get out of hand... and that rigid prices in Poland got them into a lot of trouble.

PK p. 13 population was pro some reforms.

Price reform ($\uparrow$ rise) used to cut real wages -- hence on average price rise -- used as a macro management tool. (No consolation to the populace when bread price goes up to reduce price of railway locomotives!) ^{Struminski did this, & can still remember the decision.} $\rightarrow$ Separate out -- call price reform just changes in relative prices. In common socialist parlance reform $\neq$ rises.

Private ag ~~plots~~ plots depend on stealing from the collectives... otherwise they couldn't possibly be so productive.

Inflationary monetary emission $\neq$ {surplus / balanced} budgets -- $\therefore$ credit a form of subsidy, arrows opposed.
(Economic free speech in Hungary -- but also in Poland.)

Granick

(Diversification -- socialist conglomerates.)

WB Message is: not a very big diff between different countries... but not consistent.

? in amount or type of autonomy. $\rightarrow$ esp Hungary vs other centralised.
[How can that be?] $\rightarrow$ other than Yug.

(Substantial dispute over powers of enterprises to dismiss workers. Dg thinks very little, others think considerable, esp for manual workers & esp in periods of labour shortage -- $\therefore$ no difficulty of finding alternative job.) (White collars can make such a fuss.)

[Why such a rigid distinction between investment and current production decisions.]

workers in Yug disillusioned with self-mgt.

Str In Russia, enterprise directors have to make 3 or 4 trips per year to Moscow to get plan targets reduced. Note discrepancy between rates of growth of products measured in natural units (tons of coal) & things like machinery measured in terms of value -- inflated by

introduction of high-priced new products.

JK Not enough on competition (though stressed in other papers) -- a disavow of largescale enterprises.

EL Lessons of EEnp experiences.

Yugoslavia is the intersection of (a) self-mgt & (b) market socialism -- could ^(in principle) have each without the other -- eg. Chinese could (but shouldn't) introduce self-mgt into centralised system.

Kende Length (1st/2), (play w/), little (Freedom to wiggle your fingers but not to move your arm.)
competition, distribution, prodn distinction, 16-19, 21.

WB Does innovation spread more rapidly in a marketised planned economy? [competition surely does force people to match the innovations of their competitors.]

[Kornai's book is called the economics of shortage.]

Chinese interested in
Two-sector system -- some branches centralised, others decentralised (? just like any ^{market} economy with nationalised industries). Even within branches. Multi-sector systems.

Reserves very significant issue in the Chinese context... Hungarians didn't actually need these reserves -- the problems didn't arise. } ? = restraining aggregate demand. Down-play this Morton's fork-ism. ^{foreign} borrowing -- slack.

Kosta

Apartment + kindergarten ^{or proximity to Moscow} more important as motivators than wages.

Prices and real wages.

"Rents" have "gone up" :: of introduction ^{a spread} of cooperative sector ^(shrinkage of cheap state sector), which is much more expensive. Put up the prices of utilities.

Regional differentials in wages in USSR?

p.f. Differentials w/o L. mobility. Yng not a L. market. Labour saving -- surplus. ^{A Chinese concern.} Unemp't.

Bonuses -- linkage with performance of enterprises? -- doesn't seem to work even in the West. Chinese much concerned about bonuses. [WB bonus system]

[Rural incomes?]

Maximise output per person -- rather than output per worker.

JK Yngin theory vs reality. Cooperatives are very important in China -- esp in agriculture (80% LF in orgs that quite closely resemble Yng income-sharing communes -- esp :: of inter-

commune immobility of labour).

- Def Labour surplus vanished early in USSR - because ^{firms} would employ up to the point of MP = zero. [In which case why do we call China labour-surplus economy]? :: has pools of potentially useful labour... in rural areas. No Soviet enterprise director would admit to having a shortage of labour.

Lim (Chen Yun - powerful pro-planning ^{(successes of late 50s, early 60s --} conservative -- restoration of order what is needed.)

Rephrase distrib point p. 12 on. FT corporat... subcontracting... depends also on availability of human talent.

Def No mention of importance of culture and cultural differences from EEurope.

Summing-up

Areas of agreement & disagreement. Avoid unnecessary or confusing disagreements.

Order of presentation Brus, Kende, Granick, Wood, Struminski, Kosta, Lim. ?

Then arrange an agenda for discussion in the following 4 days.

Q Why have the Chinese (apparently) been more successful in maintaining macro balance of D + S of C goods (few streams queues, full shelves in the shops)?

A. Rationing. Use of flat wage scales rather than elastic bonuses, wage fund targets. (Labour allocation also helped?)

JS later observed to me that Kende is the only member of the group who ^{still} believes that reform of socialist system is possible (perhaps because he is Hungarian, and more importantly left Hungary more than 25 years ago). JS regards the system as bankrupt, having squandered all its resources - natural and human. [And other members of the party, including AW, have varying degrees of scepticism.] [I would judge JS, moreover, to have the most protracted and intimate experience of the socialist system from the inside -- even Brus was ^{I think} mainly an academic who ~~was~~ dabbled in policy.] In Poland, JS criticised WB and other advocates of reform -- but because he believed the system to be unreformable.

1 July 82

Intro mtg in Beijing

^{Zhuo}
Lin ^{Jiufu?} Quofu

.. Was director of State Price Bureau, now advisor, chairman of price inst. (No glasses) .. lugubrious.

Liao ^{Jili} ... { VIP Head of former office of System Reform. Ex-head comprehensive dept SPC. Committee member of SPC .. system reform. Glasses .. mobile fingers.

Xu Ming ... Friend of Chen Hui, Pashan. dep dir of ec inst of SPC .. ex indust eco inst CASS. (English) Glasses, dark hair swept back.

Interpreter from SPC.

Moqan mountain.

3 Chinese presentations: 1) Lin, intro & on prices 2) Xu Mugiao on Ch ec situation, 3) Liao on system reform.

Lin Ling -- VP, Sichuan ASS

Dong Jiabang .. Shanghai Ec Res Centre (responsible person) is what?

He Gaosheng .. "

Lu Nan .. Dep Sec Gen of Price Assoc, rep member of Price Res Inst. (airport)

Duan Jianke .. Price Res Inst. (sat next to him at banquet)

Liang Wensen .. Inst Ecs, CASS. (came to WB Dec 1980)

Fu Fenggui ... SPC (Stanford)

Several council members of China Price Assoc.

incl Xu Meizheng (ms) actually from System Reform Commission -- attractive, lively.

" Li Yuesuo .. also System reform commiss (speaks English, French)

" Zheng Hengqing ?

Zhang Xiaogang .. tall, young assistant

Price Assocn (airport) A professional ~~organ~~ society.

Xu Mugiao hon pres. One member of assoc of ec assoc! Organisational membership (+ few individuals) govt depts dealing with prices + ^{res} acad insts.

Founded 2 yrs ago & hasn't yet done a lot. .. Purpose to exchange info and experience on these & practical issues.

State price bureau is directly resp to state council, though not a ministerial unit (not headed by a minister).

Zhuo
Lin Jiafu

Enterprise discretion after both plan targets and supply contracts fulfilled.

Price reforms: 1) Ag prices for producers up -- 18 major products. 1979 adjis improved ag ToT by 18%. (22% increase in ag prices). In 3 yrs raised ^{rural} incomes by 460 per peasant (48 billion yuan). 2) Exfactory prices ⁱⁿ industry: coal, ~~iron~~ ^{cement} coke, pig iron, wolfram ore, ^{etc} up, ^{machinery & other} finished products down -- contributed to equalising "profitability" as between ^(a) mining and semifinished and ^(b) ~~more~~ processed and final industries. 3) Retail prices ⁽¹⁹⁷⁹⁾ -- ^(a) nonstaple foods. 1980 Fountain pens, woollen blankets, porcelain up, plastics & some electrical products down. 1981 tobacco, alcohol up, synthetic fibres down. RPI As (up each year). 4) Price pattern (?) -- floating, negotiated, ^{country} fair, as well as unified prices. Floating - machinery and electrical products -- downward and upward floating allowed. Neg prices allowed only for ag products ^(?) -- (the 3 categories) ... only in category 3 (and above-quota in categories 1 + 2). Country fair prices free.

Relative importance:
Planned (incl floating) 92.5%, neg 3.7%, fair 3.8% of total (? retail) sales.
Of ag state purchases, c. 10% ^{at} negotiated prices.

Mineral profits still too low, some mfd profits still too high, excess D and S. Failure to raise retail ag prices → inc subsidies & PF problems.

Xue Muqiao Failure to cut ^{for 2 years} I → budget deficit, price rises. I cuts have reduced indust g. [? mechanism] Light industrial share up... also agric. HI now rising steadily again... industrial 1982 target was 4-5% -- already far exceeded -- {annual rate 1st ½ 82 10% (12 LI, 8 HI)} -- largely because of last year's slowdown. 1982 annual g forecast at 5-6% [? incl ag]. But HI will be kept in check -- esp to avoid energy shortages. Hold CC in next few years to 1981 level -- conc on energy. Could have used more foreign capital -- but ^{projects} not well enough prepared. Avoid quest for instant success.

Changes in inc dist: 10.7% (1978) 14.5 (1979) 16.75 (1980) 19.3 (1981) ...
percentages of profit retained by (which?) enterprises. Wages up ^(state large collective) 772 (1981).

25.7% nominal, 11.9% real increase 1978-81. Empt also up. Hence

big wage bill increase (44.2% nominal, 28.4% real) as compared with 15.9%.

increase in NMP. ^(incl private & sideline) Peasant inc: 7 134 (78) 160 (79) 191 (80) 223 (81) .. growth

of sideline prodn esp impt. 750 bill ag ^{from price increases} inc 1978-81 .. 460 per peasant.

Corollary is state revenues down 112.1 ⁽¹⁹⁷⁸⁾ → 106.4 ⁽¹⁹⁸¹⁾ (4 bill). (37.2% → 27.4% NMP)

[736.8 (1978) 67.7 (1981) billion : enterprise bank deposits.] ^(too high) ^(a bit too low)
[721.1 52.3 " " " "]

Enterprise profit retention should be held under 20%, wages and peasant incomes should rise slightly slower than NMP, in next few years - to improve state budget share.

I cutbacks forced machinery producers to reorient from serving HI to LI & ag, & from new projects to renovation. Some buyers markets have emerged.

Difficulties :: overall reform plan not well conceived ... contradictions.

In 1979 ^{"slightly"} over-increased money in circ.

Some products overpriced & oversupplied, & v.v.

Need for prior ^(to reform) admin interventions, & stress importance of planning -- not neglecting ec levers. Planned mgt of state economy will not be weakened... but will not cover all products. 10s of 100s of small products must be regulated by the market -- & their prices so determined. No Δ of these principles. Issue is exactly how to do it. Past practice would cause stagnation and "disproportionate balance". Current approach much better --

& "guarantees realisation of state plan".

AP ^{recent} ~~report~~ report of China ^{expert} seminar .. favouring Soviet ^{central monopoly} anti-Ying ^(and market) system .. not true. No indiscriminate ^{or wholesale} copying .. take the best of each country.

Already learned painful lessons of Soviet model .. ~~ambitions~~ which hasn't changed fundamentally. Majority of Chinese experts don't want backtracking of this sort. Govt has made no decisions yet.

About state enterprises

- ? Large urban collectives pay 55% P → state in tax, keep 45%.
 - ? (or real) Small / collective enterprises -- ditto -- but don't have fixed wage [? how ... the more they earn, the more they get.]
 - ? are P calculated in that case .. or is the tax levied on VA?).
- 370,000 state + large collective, of which 80,000 large collectives (1980)

Questions

- WB 1) What is this ^{temporary} strengthening of planning?
- 2) Purpose of more flexible pricing to eliminate disparities in profits?
- XM 1) Haven't done well in using cc levers .. have ∴ had to intervene with admin measures. E.g. in textiles .. pure cotton lower price and profits than synthetics .. ∴ factories prefer to produce latter .. ∴ price adjustments were made... Price Bureau proposed 42 billion off synthetics, 42 billion on cotton -- but the latter was unacceptable. Synthetic fibre profits (and stocks) still excessive .. ∴ had to order reductions in prodn .. but not v. effective. ∴ further changes ~~changes~~ in prices needed. Increased cotton prices would be only 42 per person .. but people were already dissatisfied with price rises last year. Could make many necessary rel price Δs without overall price level Δ. Few price adjs in past few years ∴ overall instability. Want in future to ^{make more price adjs and thus to} reduce amount of ordering of prodn levels [? for C goods only.]
- 2) Floating prices mainly to equalise D & S [won't necessarily equalise profits ... problem of quality differentials.]
- Floating price limits vary among commods. Apply only to category 2 goods. [?]
- JS Floating prices for machinery related to I cuts? Pl. prices limited to producer goods?
- XM Yes .. machinery prices have mainly floated down. Minor C goods ^{can float.} prices
- JS Tell us more about negotiated prices.
- XM Apply to mg prices, also coal in excess of quota (price usually higher).
- JS Fabric price problem same as in EUp. Does it ^{involve} ~~involve~~ political discussion and consideration of economic ~~org~~ structure.

XM Adjustment can only be gradual -- cotton tax continued under rationing.

JK Fixed (= floating) prices all fixed centrally?

XM Some central, some by ministries (eg 20,000 kinds of steel), some by localities.

JK (Real) rural inc increase, as compared with urban real inc increase.

XM Unleashing cash crops and sideline activities has ~~raised~~ had a big effect in raising rural incomes.

EL What was the real increase in rural income... correcting these ^(134 → 223) nominal figures.

XM + AVO Don't know... appropriate price deflator. Don't even know whether income survey data calculated on basis of current (which?) or constant prices.

PK 1) How are price indices calc?

2) How do you know volume of transactions at rural fairs?

XM SSB can really only work with collective data. Actual volume ^{of rural fair sales} probably much higher. Similarly for sideline prodn.
c price indices (?)

p.m. Liao Jili on "recent develts in system reform".

3rd plenary session in 1978 -- started after that.

Salient features : 1) supported collective economy, joint ventures, individual emp.
2) Rural responsibility system -- more private plots, livestock, fairs.
3) Small scale urban collectives -- emp, prodn, convenience.
3 illustrations : 1980 private ^{plots} 105.55 million mu ^{increase of 12.36 over 1979.}
13.3% of 2 cultivated area.

1980 > 40,000 rural fairs -- volume of transactions ¥ 29 billion.

Cities & towns (county towns & above) selfemployed 1979 320,000

... in 1980, 810,000; 1981 1,130,000 [or 0.25% 2 LF]

Reorganised enterprises -- coop between diff specialised fields -- move toward using ^[as contrasted with ?] econ orgs as main device for ec mgmt. Problems of sectoral isolation and

regional autarky .. cut natural, horizontal connections. Created several 500 "united cos + federated factories" all over the country. New forms of ec cooperation. Tried to turn enterprises into ^{rel indep} economic units. Enterprises have partial autonomy over prodn, purchasing, P distrib. Worker remuneration linked with enterprise perf... has stimulated .. Over past 3 years 728 billion of P retained (apply to retention % to give Σ P). 1981 rewards & bonuses in state enterprises = 48 billion (part of the 28). Retention % up $\therefore$ scope of profit retention enlarged.

~~Starting~~ starting to move away from sole reliance on obligatory planning with no market. Enterprises allowed to market above-quota output. Move away from state monopoly of commerce. More circula ^{multi-level intermediaries...} channels... to match D & S, promote prodn, meet daily needs of people. (Consumer goods stores, ~~distributors~~ ^{wholesaler} ~~wholesaler~~) c. 460 billion .. less than 20% in ^{retail} ~~shops~~ stores .. 80% in ^{wholesale &} various intermediaries stages. Some items have sat in the stores for 20 years.

Small commodities at free prices.

From grants to loans in fixed & working I.

1980 25.3% of retail sales under market regulation. (Σ ^{retail} sales 7244 bil) [??] of Σ sales indust goods, amount marketed by enterprises was 20%.

Proceeding reforms tentative & exploratory. But have roused enthusiasm, contributed to ^{economic buoyancy during} adjustment.

Basic orientation of reform: Zhao Ziyang ^{speech} .. ~~not~~ give scope to suppl regn of market, pay due attn to law of value, ..., democratic rights of workers. main future features (ZZ): 1) multifaceted ownership system, with public ownership as the mainstay. Key sectors (re, shipping, PTT) must be owned by state. Collectivis suppl. Certain sectors can have either individual or collective ownership. Joint ventures, incl with foreigners. More flex of mgmt within state sector - incl state ownership + collective mgmt, & collective ownership + individual mgmt. Eg ^{current} ^{state} ^{owned} barber shops, ^{baths, tailors, restaurants} could become collectively managed (but

skill state-owned).

2) Develop ^(natural or national) economic networks. — across sectors, regions, ownership categories.

Nationwide corps can also be org... though only a limited #, to prevent sectoral antaiky. Now several SOO Corps -- only 1 (shipping) nationwide (at ministerial level) -- 4 others nationwide but not ministerial (silk, automobiles, packaging, tobacco). (But have ministries of petroleum, railways, etc.) Diff is that ~~these~~ corps are resp for own P & L. [?]

Economic centers of various sorts based on cities.

These tentative ideas... up for comment.

3) Multi-tiered econ decision-making structure -- from centre down to workers. National strategic decs at the centre: direction, impt prodn ratios, distrib & use of NI, scope of CE, living standards, direct control of a few large enterprises. Regions, enterprises should have autonomy within limits & in accordance with plan.

4) State plan shouldn't take on too much or be overloaded with details. Obligatory vs guiding plans. Guiding plans in areas of 2ndary importance, regulated by economic levers.... need serious study of prices & necessary price reforms. Inter-regional cooperation through plans. ^(inter-provincial) multitudinous small commodities cannot be planned.

5) Commodity circulation improvements. -- consn and prodn goods. Continue whole variety of arrangements. Breakthrough regional admin barriers (Chinese milt). Collective & individual commerce, as well as better state commerce. "Blockades must be broken and competition protected". [At last, competit gets a mention.]

6) Reform the ^(income) distribution system. Most profits → state. But ~~shows~~ workers must share in gains of mtr pr. Gear pay more to quality of work. Socialism has great advantages -- but ^{acute} problem of egalitarianism & eating from same pot has nowhere been solved [but this is the advantage -- that's why the "problem" has never been solved].

JS If you extensively develop collective prodn (beyond barbers & tailors), how to arrange material supply? If material supply not decentralised, collectives remain artificial. If you know how many individual & collective enterprises there are, then they aren't "free"... truly collective/individual. What ~~if~~ when you have several million self-employed earning ^{much} more than skilled workers -- a new class -- arousing animosity of cadres?

WB. Links between impt & less-impt industries -- where does machinery and equip fit in? Can workers quit jobs, enterprises dismiss workers? With regard to state enterprises, in what areas will obligatory planning be used?

• PK Amount of above-quota, discretionary prodn? Are some enterprises to be under obligatory, others under guiding plans -- or each under a mixture.

DB Letting energy-intensive industries have discretionary power could aggravate energy shortages.

• PK What are these intermediary commercial orgs? Who pays their expenses? How can they exist if not desired by central planned.

L Jili Many questions .. some unanswerable. But will talk about: 1) ownership system, [2) plan and market.] Can the state sector alone generate sufficient impt? .. or even generate sufficiently high productivity. No .. diversify. Rural experience lately has shown that this would not cause chaos... urban experience too. You couldn't possibly turn all rural China into state farms.

2) Plan & market... [basically a repeat]. Categorisation by products rather than enterprises. Rural enterprises -- some planned, some not (but might later ~~be~~ be subject to -- local -- planning). If small enterprises rob large enterprises of materials, their ownership might have to be changed -- or even closed down.

Xue M Encouraging collective/individual ^{privileged} ~~new~~ class: problem does not exist now -- these people looked down on, jobs ~~even~~ less desirable than in state sector, don't ^{prefer} ~~accept~~ them. If in the future a ~~transformation~~ problem, then we'll deal with them. In a few cases, incomes higher than state -- if only a little, ok ... if a lot, then

take away by income tax. Form a labour ^{social} insurance fund for collective/individual workers to provide pensions, etc. (Exist in Poland, GDR.) [Fact that state pensions are paid by enterprises, rather than an insurance scheme, makes it ^{socially} harder to close enterprises ... true also in W where ^{occasional} pensions not funded.] Want to greatly increase # small enterprises ... crowded rest, bathhouses ... now a shortage. [What's the constraint.] Room for 10 million small businesses.

Only a small prop. rural enterprises in industry... example from his native Wuxi -- small machinery plants necessary to large enterprises in Shanghai (sub-contracting) ... [indirectly subject to the plan].

Energy: small enterprises need coal -- can't get it from state plan -- but get it directly -- above-quota coal or coal from small mines -- at a higher price.

Steel -- large enterprises supply their small subcontractors (also with other materials, energy).

12 July Brus presentation

General introduction to us and our papers. (JS was head of Polish price bureau for 15 years.) (Jiri from Yiji.)

(JS ^{new} analogy: wrong prices are like a clock that tells the wrong time)

(Took 1 hr 20 min... for 14 pages!)

Lian Wensheng New indicators caused problems?

WB Value added avoids all the problems of gross output? (Our wages are a cost.)

[I guess in China -- or with shadow $w = \text{zero}$ -- VA below than profits at actual prices.] How ^{to} calculate VA? Not always so simple. Also constructing plan in V.A. terms not so easy. [So disharmony between gross prodn planning, and enterprise targets]

Lin Ling If "ec and pol reforms can't be divorced", what do you mean by pol reform, & what lessons can be drawn, eg. from Hungary.

WB Abolishing oblig planning reqs "some political conditions" -- consensus about aims of

CONTINUES AFTER
INSERTED SHEET ON
POLISH PRICE BUREAU

13 July 82

Or on a summary of his presentation?

JS on the work of the Polish Price Bureau

Possibly a conversation AW had with Struminski
Poland the 1st Comecon country to have a price bureau (Soviets and others copied later -- previously different sorts of prices were set by different departments). In Poland, they controlled all prices, except of specifically military equipment.

In each sector or industry, they had a consultative group (the whole system seems to have been devised by JS), consisting of representatives of producers and users (eg wholesale orgs in textiles, machine builders in steel), chaired by a man from the price bureau.

Job of this group to draw up a price list, then rubberstamped by bureau. Usually disputes could be settled within the group, but sometimes referred upwards to one of JS two subordinates.

JS himself, to keep in touch, chaired some sector groups (chemicals, pharms, ag products, ag machinery). They set producer, wholesale and retail prices.

These groups would get general directives from the bureau -- vague and admittedly contradictory: cover average costs of branch and average profits, with suitable wholesale and retail margins, but "pay due attention to market conditions". This last phrase mainly meant, charge a higher price if you can get away with it -- eg for good quality products that commanded higher than the official price on the grey market. It was responsible for (invisible in official statistics) upward trend of (retail?) prices of maybe 2% p.a. -- though part of this reflected genuine improvements in quality. Truly unsaleable products (pairs of different-sized shoes) would be sold off at low prices. So in reality there was much more price flexibility than existed officially. ~~But~~ This was constrained from two directions: if prices were raised, gross costs protests would come up through the party; if prices were lowered, the ^{public} revenue people would

scream. However, IS seems to have been adept at playing each off against the other -- and especially justifying price increases on the grounds that otherwise the total profit targets could not be met. Taxes, though, became highly differentiated -- almost a residual, squeezed between costs and preordained prices. -- in all common countries.

reform; recogn of govts political legitimacy (? popular support) ^(broad base of support for political leadership) -- Poland as a negative example, govt now lacks ^{legitimacy} credibility to carry through reform program.

ANO 1) Wages still linked to plan fulfillment? USSR, he read, had "prodn brigade" approach. 2) Optimal size of enterprise/corpn?

WB ^{Post soviet} Overst of merits of cons of scale -- esp in ag. Czechs in 1968, Solidarity demanded right of voluntary assoc rather than forced marriages.

(Shanghai)
He Gaosheng

Tell us about territorial prodn orgs in USSR?

WB After fall of Khrushchev, ^(abandoned regional orgs) back to sectoral orgs. Now trying to find a compromise on a smaller scale -- basically sectoral org, with territorial prodn orgs arranging local horiz linkages... including between provincially & centrally controlled enterprises -- esp to avoid unnecessary transport. A new idea -- not much experience yet.

Kende } in Ch
Granick }

[Wiles makes the good point that there is no Marxist micro-economics -- only a stufenlehre macroeconomics.]

? 13 July

Struminski ^(mainly) points ^{suppl} to his paper).

Ch shouldn't copy, should seek new solutions.

In all socialist countries known to him, price systems are flawed.

Part of problem is ^(in countries) all sellers' markets... :: admin alloc necessary, also 3 parallel market (incl rural fairs) -- but also black markets & various forms of corruption...

also intensified ^{price} controls -- none of which are effective in his experience.

Distorted relns betw world & dom prices -- esp bad effects in FT.

Price policy also an obstacle to innov.

USSR

No qualitative Δ in Soviet price system since 1930s.

Prodn & consum prices set differently.

Generally, planning offices are not fond of price reform -- explanation to come... raw material prices remained low, despite rising costs (exploitation of best deposits, etc) -- hence rising subsidies to raw material prodn.

Ag prices -- see in reln to industrial prices (accum of I for ind), also keep C prices

down. Only after Stalin's death, ag prices rose, & so did ag prodn (if you believe Soviet statistics) .. but all collective farms remain highly ~~unprofitable~~ unprofitable .. requiring subsidies (incl credits that will never be repaid). debts periodically cancelled. Min ag wage made losses even worse. Officially no food rationing in USSR -- but in practice there is in most parts of the country .. doors of food shops slammed in peasants faces. Many urban residents can get meat, veg, fruit only from peasants markets.

(Chinese questions sent to us earlier)

- 1) In USSR regional price diffs 3, as you would expect, but small... $\therefore$ ag prodn in many regions ^{esp NW Russia (without black soil)} remains unprofitable. but with enough rain. Regional price diffs are necessary in large countries like Russia & China -- but ~~not~~ ^{bad} in small countries (his personal experience).
- 2) ^{Different} ~~Separate~~ prices for quota & above-quota prodn & used in USSR with bad results -- esp in agric $\therefore$ ^(a) prodn fluctuates unpredictably with weather $\therefore$ target fulfillment uncontrollable (b) quotas for individual producers fixed arbitrarily -- by party secretaries anxious to fulfil local quotas -- screwed from good & bad farms alike. $\therefore$ in his ~~own~~ view, unified prices better.
- 3) Inverse between C & Prod prices $\therefore$ no increase in C prices ($\therefore$ inflation = capitalism). Khrushchev the last to try to raise C prices -- very unfavourable public reaction deterred further increases. Even though low (eg.) bread prices may cause fantastic waste. Malenkov decided to lower retail prices -- potatoes down by 50%. - He asked his boss how ~~could~~ be done -- ans there ^{were} ~~was~~ no potatoes. Subsidies met through high prices of industrial ^C goods ... but even these prices can't be increased -- but hidden inflation occurs in this sphere ^(as his colleagues well aware) -- introd of new high-priced C products. Not sufficient, so banknotes need to be printed -- and personal savings increase. Political as well as ideological reason for ^{low} ~~stable~~ C prices -- enables addit deliveries to areas of unrest, and to privileged prices.

Producer prices several times modified -- last time was early 1982 -- after a 15-year interval. Raw materials always up more than mfg -- natural... but partly always based on falsely elevated expectations of profits in mfg... & even some mfg prices reduced. Principle is that producer price Δ s must not affect C prices... except for new products. Producer goods not subject to sales tax -- only on C goods (highly differentiated).

Why Soviet prices so long-lived?

- 1) Practical price work very arduous -- takes several years to input a decision to reform prices. And ^(don't save you) computers cannot produce ^{better} ~~more~~ than their input data -- which are bad in the USSR. ~~then~~
 - 2) Planners don't like price Δ s $\because$ they have to recalculate ^{all} their plans -- with a lag, since it may take a year to ^{physically} produce new price book. [Can't you have separate planning prices.]
 - 3) Gaining enterprises understate, losing enterprises exaggerate -- hence an apparently big hole in the budget... (a deterrent to reform).
- So can't have price reform more than once a decade.

Import prices

Goods with / without local equivalents.

Coefficients -- don't square with official ER between dollar and transferable ruble -- higher -- domestic prices of ^{an} goods high to raise state revenue from users.

Recent reform

Has made all raw materials (except coal) profitable. Coal up 42%, gas 45%, oil 70%, wood 30%, building materials 25%. Reductions -- polyethylene down, chemical products, -- because had initially very high prices, produced in new plants with high pv.

Profitability of means of prodn is said to be 14% -- but vary widely between branches -- range of 5-15%.

Soviet price minister said most enterprises henceforth profitable.

known Price policy bad for union - old machines produced for decades. ^(-- buyers had no choice.)
Machines now divided into 2 groups (as in his paper) -- price supplements to more modern ^(well received) equipment, penalties on obsolete (not effective) [again carrots without sticks!]. Limit prices -- in theory negotiated -- but in practice doesn't work.

Hungary (only 10 million people -- 1% of China.)

1980 reforms -- 1968 an ex prelude. and open to FT. -- $\therefore$ intimate price linkages more imp. [H ag just like EEC -- protected by high prices -- 30% above world level.]
Prices set by producers, except for basic goods ^{centrally} (set by state).
[$\equiv$ competitive prices] in acc with world prices + S & D... applies to 65% indust goods.

Problem of raw material ms -- from E & W -- latter has generally higher prices (could explain later) -- base domestic price on highest m price -- justified in terms of raw material-savings.

Goal is further decent of price-setting... with suitable ec & political condits.

H has increased C prices -- several times.
Another group ^(of goods) has prices set purely by producers ^(or traders) -- fruit, veg, eggs, numerous ^{other} products ^(? S & D) ~~in accordance with~~

Theory and practice of "competitive" pricing: eg a textile firm meant to lower dom prices if x price fell -- maybe only 10% of output -- a deterrent to x -- so special rules allowing maintenance of dom price if x increased. [Why doesn't ^{argument} this apply symmetrically?]

A new reform -- & other ec problems (eg. c. \$8 billion foreign debt) don't help.

~~Highly~~

Concl: No country satisfied with price system, much talk of ^{price} reforms.

But what is price reform. In USSR just means changing a lot of prices -- no reform of principle, or system -- which is the essence of price reform. What is needed is a more elastic price system. Plus reforms in other aspects of system of ec mgt. State now prepared for



radical reforms. But small, useful, adjustments can be made -- avoiding mistakes of other countries. How to have market in a planned economy -- don't know. -- not a physician -- no ^{magic} recipe for price reform.

Q & A

Lin Zh: effect of price increases in Hungary -- lowering living standards & little prospect of further increases. (other questions -- lost a lot) ..
Food prices lower in H than Germany/Austria.

Lin L H ag exports subsidized? Some yes, others (esp processed food .. $\because$ low wages) profitable -- prefer to ~~x~~ processed food.

Lu Nan Again .. ^{JS} against multiplier pricing .. a tax on ag prodn .. not necessarily wrong in China, tho. Above quota premium have 3 for many years in USSR without doing much for Soviet ag. WB .. just an excuse for bad quota prices.

" How do ag prices in USSR ~~compare~~ compare with world market prices?
Also USSR ag rel prices? Hard to answer ^{-- complicated} $\because$ no meaningful ER. Still a scissors differential -- ^{but} grain v. expensive relative to bread.

- AND
- 1) Place of price reform in sequence of various reforms?
Simultaneous, but first fix most of the people in price Bureau. -- ^{(work done by the} have the ^{enterprises.}
 - 2) Preconditions of major price reform? Need to get at peasants -- draw them into the market. Might be an expansion of D -- might induce necessary price rise (?).
Or the opposite. (Improvising.) Without unions, cannot have wage discipline ^{(British & French would see it differently.}
[a German view]. Reform always risky ^{but} as Clausewitz said, if you don't take risks, you can't win. Badly prepared reform -- eg of Poland.

Zhang CY 1) Failure of ^{all} price reform due to failure to reform planning? Yes.

2) Price rigidity caused by theory that no inflation under socialism? All CPs pledged to control price level, but few EEng economists now think this possible.

AW presentation (2 1/2 hrs!) (^{many} ~~many~~ things repeated, for copying down. Price people clearly not interested in wages.)

Lu Efficiency prices: --- soln with shadow prices.

Xu ming Can you really block imported inflation?

AW Political problems of devaln - less serious ^{for} ~~of~~ revaln?

DG disagrees, because crawling peg would mean some ^{down} prices would have to decline sharply --- eg if oil price rose sharply. [Actually, spread]

AW This problem not peculiar to ER policy -- always diff to reduce ^{specific} prices -- but if you don't, you're doomed to inflation.

PK have to have rapid pr in X inds. [~~specific~~ ? not correct.] — misunderstanding.

Zey Limited relevance of world prices to China :- X & M so small?

AW TQs > 50% output [Revise paper to avoid this confusion between X/M & TQs]

Kosta presentation

Intro Not on moral or political incentives... though these are important -- just material incentives.

Wages 3 fns: incentive, ^{allocative}, equilibrating D & S of wage goods.

Real wages key for incentive --- C goods must be avail, prices affordable... but not too cheap (poses many problems -- subsidies, neglect of eg. housing maintenance). Social credits for

incentives to work: health security, nursery schools -- eg. lack of social infrastr in Siberia ^{even high mean} wages won't lure people in. (W = incl bonuses, etc.)

"hard communism" -- or fully centralised economy -- labour assignments, C good rationed, egalitarian

ID, free or heavily subsid services ... of Cuba, ? GLF? [China throughout.] Logic of this system... lack of free choice of jobs, rationing. Are there "incentives" in this ~~same~~ system in any meaningful sense? He doubts it.

Centralised system -- ideal type (ignoring Soviet convict labour). Other enterprise targets for w, emp, pr, etc. But individuals have to be attracted to enterprises... which need labour to fulfil plans. Wage scales: several criteria underly -- higher w in HI, attractiveness or otherwise of partic inds, zones, regions -- a "quasi-market" -- scales

contract piece as well as time rates. (1930-50s use share of piece rates in 2 w rose, Czech peak of $\frac{3}{4}$ workers on piece rates in 1955, -- nonsense observed by JK in labs and repairshops -- subsequent decline in share of piece rates $\rightarrow$ mixture of time rates & bonuses.) In Czech skill level initially a minor factor -- but skill diff. have subseq. been increased (regardless of "reform") in all countries. Bonuses linked initially to ^{gross} physical output of enterprise or section "success indicators" have evolved since then (sales, net output, $\pm$ in GDR, profits -- as acts of bonus funds) --? with minor exceptions, bonus funds also linked with plan fulfillment.

Reasons advanced for non-success of ^{initial} incentive system = 1) ignored costs -- $\rightarrow$ irrational labour input 2) I too high in forced indust $\rightarrow$ low pv, inflationary pressure. What about ^{with} ~~new~~ ^{success indicators} ~~incentive systems~~ (again complaints of nonworking in Czech papers)? All imposed-from-above indicators have negative consequences -- superior authority always lacks information -- has to rely on information from below... where they want targets conveniently attainable [incentive compatibility].

Decentralised -- market under plan, ... conceptual ~~reform~~ ^(bonus) implies for w system. In H = C2, wage scales not completely abolished -- a profit-sharing / introduced (not in rela to planned P, since P isn't planned). How bonus distributed within enterprise? Disproportionately to those whose activities directly influence profits.. [very sensitive].. eg. ^{for} cleaners low, ^{for} managers ^P high proportion of Σ remuneration. Auxiliary workers might have only fixed wages -- but not good idea -- better to give all workers some P so as to create more pressure (from them) on managers to act profitably (works best with participating mgr). Alt. abolish fixed wages altogether : $\rightarrow$ gets you to ^{cooperative model of} market socialism. ~~market socialism~~

2 Qs from yesterday : 1) group bonuses / gang payment -- relevant to H as well as USSR experience. USSR press reports very successful -- & may well be effective in some cases... where "technology" dictates team performance (where piecework doesn't work) -- increasingly important -- linked through moral incentives / pressure within group.

2) In reform, Δ incentives involved or later? In Czech, one

of the earliest reforms (1 Jan 66), even before obligatory planning abolished.
In H, simultaneous. No reason not to do it early.

Market socialism (à la Yugoslav -- but only the principles). (exp: very hard to disentangle contribution of system to Yugoslav perf.) = pay dependent wholly on enterprise net income. Problems: 1) works well only if market system works properly -- at least to some minimal degree -- ^{half-rational prices} -- buyers' markets. 2) Social justice -- equal work same occ in 2 diff factories... one may earn 3-4 x the other -- breaches principle of equal pay for equal work. 3) Low level workers ~~work~~ in large firms may not be in any position to influence enterprise mgt or performance -- unlike small firms. (∴ combination of fixed w and P ^{-related bonus} is better -- ~~demonstrating~~ for both incentives and social justice).

Conclusions ... for China... cautious.

- 1) Need to strike some balance between economic and social justice consid. ∴ China stronger egal tradition, may be able to have small w diff than in E. Eur [based on some assn of reln between utility and (absolute or relative) income]. But ^{some} differentials are essential.
- 2) In indust enterprises use a combination of basic wages + profit-related bonuses. But in small ^{scale} ind & ag, cooperative system advisable -- (as in ag responsibility system).
- 3) In China, some freedom of choice of job necessary even if reform in general is gradual. With job assignment system, incentives will be weak (not necess). Begin with partial relaxn -- ? has already started.
- 4) In LR, recs Hung-type system for China. But move gradually.
- 5) Big diff E. Eur / China in labour scarcity / surplus. If ^{have} a more market-oriented system, should increase cost of capital relative to labour -- eg high taxes on fixed capital -- to stimulate more C-intensive prodn... will create jobs. Not counter to modernisation. Continue to walk on 2 legs, in interest of F. Empr.
- 6) Raising skill levels of workers + graduates of vocational schools. ∴ heaviest adverse effects

These are the questions, assembled and written by WB,
then the Chinese presentation on 15 July (following pages) answered

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AN 04/08

ZHEJIANG MO GAN SHAN HOTEL

I. Price management and Control:

1. From the point of view of macro-economic control
should there be control over prices?
2. To what extent should such control be exercised?
3. Can administrative means be used in exercising
such control? ~~that~~ Under what circumstances and to what
extent should administrative means be used?
4. When using administrative means what should we pay
attention to?
5. What should we pay attention to when bring it into
play the role of pricing and taxation as levers?
6. As regards prices in what aspects (or areas)
can we relax control or should we keep tight
control?
7. What sort of problems are bound to occur if we
leave prices in a state of ~~laissez~~ *laissez-faire*?

II. Relationships between income distribution and efficiency prices?

1. Contradictions between them.
2. Any Coordination required?
3. Under what circumstances should we have to
attended to? Under what circumstances
do we ~~we~~ need only to pay attention to
economic efficiency? Under what circumstances
do we need only to pay attention to
the objectives set ~~on~~ income distribution?

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II. ① The question of potential inflation in the USSR.

1. What is the potential inflation in the USSR?
 root cause of
 Is it inevitable?

2. The USSR does not admit it. What grave
 grave consequences will arise from their
 refusal to admit it?

3. How shall we put the question of
 inflation in perspective?

IV. ② Theories for price formation in the USSR and
 Eastern Europe.

1. How should shall we assess their
 practice of production price by the state?
 and their practice of fixing prices
 by "double channel" "three channels"?

2. If they could adjust prices in good time
 would their practice of fixing prices
 have produce any good effect?

3. How should we evaluate "ideal prices" (?)
 or "imaginary prices" (?) calculated in
 Hungary in 1968?

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4. How should we evaluate "the dual price" ~~priced~~ practiced in the USSR and Eastern Europe?

5. Any similarities between price increases for above-the-plan procurement and multiplier pricing mentioned by Mr. Wood?

6. If domestic prices are to be linked with world market prices what measures should be taken to protect ^{the} domestic industries?

10. In calculating efficiency prices by using the input-output method and by using production cost the crucial point is to determine the different profit rates for different types of products so as to achieve optimal economic results. How should we handle this issue?

of C.R. One should pour resources into ed. & try at all levels.

15 July : Pricing Discussions

Q1.1 Amplification^{by Lu Nan} Mainly in the form of history of Chinese prices since liberation. Early 1960s efforts to control prices included I cuts & sending people to rural areas... & revitalising prodn & rural economy. Froze certain prices, raised others [to absorb purchasing power]. Stable prices contributed to ec. devt and political stability -- relative (!). Chen Yun has often disavowed -- tendency to push things to extremes. How to control inflation. [AW. I said it in my paper.]

JS Not just a socialist problem. Even capitalist countries have resorted to admin controls -- cap on wages -- such controls have their limitations ... inflation can be controlled only if the overall ec situation is good. Excessive I & military exp creates insoluble problems -- then have to resort to admin controls. In soc countries, prices of indust goods tend to rise -- no theoretical reason... In Poland ^{he had} 2 perennial problems: 1) each factory had its prodn expansion plans -- the higher its prices the easier to fulfill the "physical" and financial plans: 2) always a sellers market -- hence enterprises tend to overprice their products. Price bureau unable or unwilling to control prices -- Polish and USSR experience -- can't implement ~~prices~~ prices prescribed from above. Enterprises exert pressure on price bureau for increases -- & for setting prices in a hurry -- esp for new products. Price bureau should fix only prices of a few major products ... & hence indirectly control minor prices. Price fixing takes time -- just as producing a machine does. And bad accounting at enterprise level doesn't help. Bureau should devote its efforts to effectively controlling a few prices. In E.Ecp few people working in price bureau -- deluged with information from below -- economic, political & even criminal issue.

WB Conflict between different fens of prices. Allocative -- inform the planner (as well as enterprises) -- eg in deciding between oil & coal in elec generation. Income det. Affect balance b/w S & D. Price policy must have objectives -- Ch^{main} objective appears to

be price stabilisation -- but what does it mean. Stable ag proc prices ^{would have made} ~~not~~ ~~make~~ you hungry? Do you want world oil prices 5x yours? What you really want is stable retail prices of C goods. Even then only on average. Rather different from general price stability. So need a combination of measures -- to ensure both stability & flexibility.

Lia Zhuofu

Why does the Chinese answer to every Q on prices have to go back to liberation, and take 1/2 hr. Post-liberation general price stabilisation -- not all individual prices. Price rises for basic necessities would be compensated for workers & staff... eg wage increases in 1950s, way ahead of price increases, so population happy. Damage of ~~CPI~~ GLF... wage increases less than price increases -- but ag proc price increases (now onto 1979?) -- without retail price increases for grain, cotton cloth, edible oil... ~~also~~ subsidies. -- with RP increases for other products -- nonstaple foods ^{reason for increases:} eg. eggs, ag proc price ¥1, retail price ¥0.8 -- peasants would then buy eggs in the city & sell them back to the state -- has to be avoided. Hence the price increases & the 54/month... based on sample surveys, to determine ^{family dependency ratio,} (C patterns) & hence necessary amount of compensation (time-consuming process). People with rel small families ^(20%) benefited, with rel large families ^(20%) lost, & 40% neither lost nor gained. More peasant output of nonstaple foods. Workers & staff not worse off -- but minority complaints from those who lost out. Govt's explanation -- enlisted popular support. Industrial product prices -- some up, some down. Numerous products, with small 2 vol, prices fixed ^{jointly} by comm depts and producers. Negotiated prices -- in fact the state determines the range... (then revised to ^{basically free with} "some govt intervention"). Free market prices, regulated by intervention by commercial agencies -- intervening by buying & selling to ~~stabilise prices~~ damp fluctuations. [Just like capitalist speculators.] Price bureau has a huge backlog of necessary work, due to CR, etc. Shortcomings: too optimistic a view of situation... 1979 ag proc price increases too much.

AW Or was it that the wage increases were too great? ^{They didn't actually raise wage scales.}

LZ I'm not concerned with wages

AW } (General amusement.) JS coordination through a V-P.

Analys price
& wage
bureau

LZ Combining these 2 issues makes ^{them} ~~it~~ more difficult. [?]

JS Amalgamation impossible. [if you fix all prices]. Need a quicker response for ~~regulating~~ prices than for wages.

LZ Eff macro control of prices requires certain condits: balanced budget .. now can't achieve small surplus, but they can do in a small deficit; control of MS; balance avail goods, purchasing power... currently not balanced. [Less wage increases, ag taxen.] Under these condits can achieve stabilised prices [wouldn't need state price bureau].

AW So why not come on achieving these condits & then abolish price control -- let markets determine prices?

LZ Still need a price bureau .. $\therefore$ if certain prices go up people will produce more, & v.v.

AW A good thing. .. Why not let prices fluctuate?

LN Macro equil can be achieved only after adjustments in the plan .. take several years... & require great effort. In annual plan, imbalances -- need correction in course of implementation. ~~then~~ If and when macro equil achieved, we can indeed ^(admin) relax control of prices... but such conditions achieved very rarely in past.

WB Even if these condits achieved, not all problems of price control removed... eg subsidies on some goods, surpluses on others... want to maintain them .. $\therefore$ you can't allow a full substitution -- society indifferent about composition of C. In rich countries, doesn't matter ~~whether~~ if people consume less food, more indust goods -- does matter in China now. In future, more relaxation possible -- in most socialist countries, which have not relaxed, food ^{prodn} sector has become a source of disaccumulation.

AW But doesn't require admin control of prices .. do it with taxes & subsidies.

JS Admin control of prices -- what are we discussing? Even admin controls require certain condits .. in the 1970s, UK, US etc found price control relatively easy ... harder in Poland, USSR, where discipline more lax. If you have only 1 criminal in 100, control easy, if 80 in 100 impossible. Control of retail prices is tied up with admin control .. control of a few basic product prices rel easy.

But in EEmp pressure on price bureau from above to control all prices -- very costly.

LT control of prices esp difficult, because future condits unpredictable. For a brief time under extraordinary condits in a socialist country, total control may be poss. But in general, v diff for price control to have all necessary info -- esp if a shortage of skilled staff. Bribery and corruption a serious related problem -- rife in EEmp --

less in EEq, Cz .. but ^{Poland, Romania} ~~the~~ USSR ^{world record} holders in corruption. Shops accumulate bribes from customers, & use them to bribe higher officials. May be better in China. Control of prices shouldn't be the final objective of govt.

* → [reform reduces, does not increase corruption.] No socialist country has achieved

Why? macro D/S equil -- except temporarily. Official & black market prices -- the narrower the gap, the easier ^{& better} price control. Where gap very big, state control ineffective & bad. A "theoretical" point: in socialist countries, budget always

↓
+ more to D/S
balance than
balanced budget.
↑

LZ Price ~~is~~ instability distracts people from task of readj [!]... would trigger reaction from workers & peasants, with bad results on prodn. [Is control permanent or temporary. Study why socialist econs always have excess D.] Perceive irrationality of 3 prices, & in process of making adjusts. Energy, transp weak links -- also raw materials, semiprocessed products too low. State price bureau should back other agencies in tackling these weak links.

JS What's the connection? Raising train fares?

LZ May have to raise prices of underpriced products -- but by how much is the question. And have to ask how about effects on general ~~product~~ price level.

JS And on prodn -- where raw material prices rise... & some enterprises can't pay.

LZ In price-fixing, much inter-dept discussion -- not just the price bureau's views.

JS As in my experience in Poland.

LZ Try to narrow R-U living standards gap, improve [?] ratio between industries, foster develop of natl econ as a whole. Any prices still on low side [producer or retail?]

IN OUR REPORT →
2* →

LN Differs betw Ch & Soviet price mgmt system -- in Ch, not so many prices controlled .. also multi-level control (central, provincial, municipal, county) branches of price bureau & control ministries).
 Now some enterprises have price ^{fixing} powers... in negotiation with commercial depts. subject to bureau approval.
 Products of major importance are the brief of the ^{central} price bureau. Most newly produced products not priced by central price bureau. [But local ^{price} bureaus have same problem.]
 Central PB has 150 staff [almost exactly same as in Poland]... but in total at all levels 10,000 people [hard to believe]. ~~Price~~ PB will price only representative varieties of a commodity -- lets enterprise ^{recommend} prices of other varieties -- but bureau has to approve & ~~exercise~~ exercises general supervision. Err on side of excessively rigorous control.
 [JS .. again, exactly as in Poland.]

- I** AW Speaks again on efficiency - ID considers -- explains effie prices, a simple example.
 Also about efficiency prices in I decisions -- with example of aluminium mill and shadow (or double) pricing.
- JS Effie prices v. impr for an LDC like China. I dec'n made daily -- need to avoid repeating mistakes made in I dec'n elsewhere -- should evaluate projects also at world prices.
 Polish ~~steel~~ steel mill eg... didn't have enough iron ore -- has coal, but could equally well sell it abroad. Meant to produce ordinary steel for X -- had to go on ~~importing~~ importing special steel (5x as expensive). The Postmortem showed there should ^{instead} have been retrofitting of existing plants to produce special steels. -- while importing cheap ordinary steel.
 Alumn eg -- also WPs -- mainly TQs
 -- implies for actual prices?
 Not debate between metallurgy min and SPE --- Central Office approval granted... on basis of false information... also regionalism -- locality had political pull -- native place of 1st secretary of Party.
 2-stage project -- 2nd stage was dropped -- public outrage.
- LZ ~~But~~ But otherwise would have to import and steel. JS already had this technology -- & was exporting it. Effie prices could have avoided this error -- but at actual prices looked profitable.

and have eggs.

[They all know what inefficiency prices are. Principle of effie prices as old as Buddha?]

LZ Also has eg (hypothetical). Now them plant -- viable at effie prices. But an old plant not. Combined output falls short of market D. Look only at highly effie open det effie prices, or ~~another~~ also at old plant, or what? Keep old plant in business? Unsatisfied D for production? Or import?

AW Various cases -- Tq, NTq (class S, index S) -- illustrates the 3 approaches to calc effie prices.

LZ World prices may be influenced by S.C.D. AW Correct -- if so, take into a/c., etc.

JS Of course all countries want to put resources to best use. Includes ~~a~~ finding out about energy guzzling enterprises... eg cement. (Also other materials.) Channel into other uses.

LZ 1) Take LI branch -- prices based on average costs -- is this effie prices. [Not if a traded good.] [Long, frustrating dialogue]

Average cost rationale is to give inferior factories a model to ~~also~~ emulate. Isn't this efficiency pricing? [Not in the sense I am using the term.] ^{though I recognise ~~it~~ attempt to} use prices to improve efficiency.

JS Does China have suffic funds to introduce energy effie technology?

ZCY Grain a Tq. -- such a small propn $x \propto m$.

AW But if $\text{prodn} \propto c$ affect x/m , then it affects FX. ^{of local self-sufficiency} [Not in remote areas, or with policy]

Joan 1) Non-world prices = not effie prices? [No]

^{effie prices}
2) ~~for~~ actual prices -- just theoretical prices? [No]

ZCY Labour input... cost of prodn. -- world prices just reflect superior foreign tech. She doubts very much that world prices ~~also~~ ^{have anything to do with} effie prices.

AW ~~An~~ Eg of what ^{would} happens if you based petroleum price on labour cost of prodn -- with coal more expensive, on similar principles -- how oil would be wasted domestically with small contribution to output -- instead of being exported ~~to~~ and enabling much larger imports of goods. How much worse off China would be.

Joan to add that Mr Zhang's view does not prevail in China -- enterprises that exceed energy quotas have to pay at world prices.

AW If you want to be a closed economy, then of course world prices don't matter (aren't effie prices). -- but you'll be poorer. If you want to engage in FT -- obvious

16 July 82

浙江莫干山飯店

ZHEJIANG MO GAN SHAN HOTEL

① Why ~~was~~ did ^{food} subsidies increase 1980-81 when no ag price rises?

Liu Zhuofu. Several reasons:

- 1) Procurement quotas down from 70 to 60 billion jin, hence ^{bigger} ^{share} ^{at} above-quota price.
- 2) Grain sales in urban ^{and rural} areas up. Each jin sold costs the state 10 fen in subsidies.
- 3) ~~State~~ Shipments of grain to areas with hit by drought/floods... transport costs... not recovered.
- 4) Losses on grain transports shifted ^{last year} from MFT to Min Ag ... c. 3 billion ¥.

② ~~Has~~ Has urban housing expansion raised rent subsidy? ~~rent~~ Rent subsidy not included in the ¥32 billion. For every ¥ collected as rent, state has to put in another ¥ as subsidy (approx). [JS thinks it must be much higher, unless maintenance totally neglected.] Cost of constructing a square metre averages ¥150 (more for high-rise ~~and~~ buildings). (Was ¥500/m² -- Beijing hotel.)
[JS State gives apartments as presents.]

Define efficiency as opposite of inefficiency (which everyone understands) in 2 senses -- high costs, $x \neq D$. Similarly with efficiency, price-define as opposite of inefficient price -- price which lead to inefficiency in one or the other sense (again everyone understands and can give actual examples).

Why this makes you better off -- than world prices matter a lot.

ZCY But if China had used world prices, would still be in all indust goods, X only ag.

AW Evidence of LDCs is that those who ignored world prices have industrialized slower, had lowest pr inv. Those who adjusted to world prices did better.

Leading from system reform.

Which countries in latter category? (SKorea, Taiwan, Thail, Mal, .. Singap.)

AW What farmer would ignore market prices in deciding what to plant?

Lu Han -- after dinner

[Approaching via LP a mistake.]

How to apply LP methods

Price of production -- profit rate -- = effie price? or differ from prodn price.

- 1) Terminology confusing -- efficiency price { a very general or overarching concept } doesn't imply any specific approach to effie pricing.
 - 2) LP unfamiliar { } everything else (LP, S&D, pr of prodn, ...)
- not possible in practice -- but theoretical insights

I re-explained it all -- each of the 3 approaches in terms of convergence of theoretical insights including limits for mark focus to give effie prices. world view from a practical viewpoint useful objective point of reference with its own ec meaning.

Conclusion between (1) world prices for TGS and (2) Free trade (phase of M substs) though I would point out that move in this direction after building indust base tends to improve rather than reduce growth and modernization.

Simply want to signal to domestic producers & consumers agⁿ petroleum is liquid gold -- China can sell it abroad for \$400/T -- so don't pour it on the roads or use it to fuel rotten old boilers -- and try to produce more of it.

Reln betw MP & SPS.

16 July 82 -- continued

"Potential" inflation -- in USSR -- meaning ^(statistically) hidden rather than suppressed inflation.

JS USSR govt doesn't admit ^{budget} deficits, either. Men of 6 goods prices. New producers prices high -- enterprises deliberately ^{estimated} inflate costs to increase their profits. [Again, the deliberate misinformation problem.]

AW Why is there always excess D / sellers market in ^{all} socialist economies? Also in Hungary?

WB Not always -- ^{but} is the general tendency in all socialist econs. Two fund reasons:

1) Expansive tendency of macro plans: socialism was intended to fully utilize pr capacity -- unlike capitalism ("produces excess capacity with excess labour" -- Marx, vol III).

Hence "output first" mentality, regardless of cost [i.e. input avail -- pressure on inputs]. Also

very high I rate... ~~produce~~ workers who consume but don't produce producer goods.

[Why can't suitable macro policies offset this?] [Errors, or political constraints.]

↓
2) Systemic reasons... inflationary pressure persisted even when expansionism declined. Old Soviet system never set up barriers to prevent enterprises demanding more inputs regardless of contribution to output... no fear of losses or bankruptcy. ↳ esp. fear of
investment ^[?] ^{manager} (joined by local party secretary in this) -- no economic defenses against this -- only a few people at the top struggling to exercise restraint. Always soft budget constraints... of Kornai's "Economics of Shortage" (1980)... shows how system reproduces sellers market at all levels of development (i.e. don't go away as country gets richer -- not inherent "growth → shortage"). [Makes my para on D mgt seem ludicrously pat.]
Remedy is to make budget constraints harder -- this indeed the essence of cr reform -- "full responsibility" = if you don't sell, you can't buy raw materials. Hard budget constraints have negative side-effects ^(-- eg on employment) → Semi-hard budget constraints -- Kornai shows slight, but only slight, improvement in H.
No ideal soln.

Xu Meizheng

H reform dual character: good, that enterprises produce for market demand; but bad, that they tend to demand more I.

WB No worse than before... perhaps slightly improved ∴ some I financed from P -- hence need to earn P -- or from credits that have to be repaid (at least theoretically) -- didn't improve as much as expected ∴ enterprises treat credits as grants.
Very difficult ^{to be otherwise,} given public ownership. Suppose it were a real credit -- & the I failed or for some other reason repayment ^{not} possible? You don't force ^{enterprise} into liquidation, lay off 5000 workers -- just fire the manager -- and enterprises know this -- ∴ treat credits as grants.
↳ maybe not even this, if the
planners ordered the I in the first place... then the state should take the resp.

JS Hard-currency credits used in H, Poland, etc - ^{supposed} to be serviced from X earnings.
Little success -- esp in Poland. Better results if limited cover between enterprises required.

∴ Indirect suppliers don't care about quality ∴ they don't get a slice of the FX pie.

China should take afe of this negative experience. Meat processing / juice producing -- with local inputs -- more likely to succeed. For other sorts of projects more difficult -- esp where imports of materials or components required ... allegedly only "temporarily" ... eg motor cycle factory. Root cause of poor use of credits is system itself. Risks lower in TVs ... ∴ kept out of systems .. though still not as good performance as expected. Loans thus don't ensure success.

LZ Should suppressed inflation be allowed to become open inflation? [Very good Q.]

WB Prices are meaningful only when market-clearing. A fixed price at which you can't buy a good is ^{sheer} deception, ^{cheating} -- people ^{actually} have to pay more than the fixed price (either on black market -- resale of rationed goods ^{or through back door --} or in queuing time ^{in effect} -- extra 2 hours of work to get the good (or he has ^{to} travel to get it) -- bad luck ~~if~~ if you don't have an old mother to stand in the queue -- "law of distribution according ^{not} to work but to avail of old mothers", or some part of wages simply can't be spent -- again, cheating. Don't have to blindly follow market at all times: 2 options: (i) be honest, and introduce rationing, (ii) ^{use} subsidies & taxes to manipulate prices.

When you ~~then~~ suppress inflation, you only postpone the day of reckoning ... sometimes advisable -- if pressure only temporary. If not, ~~then~~ you're just making matters worse -- at a later date, much larger price rises needed. Classic eg. 1970 Polish govt wanted to increase meat prices ~~for~~ by 35% -- and couldn't -- by 1976, the increase required was 70% -- again avoided for political reasons -- by 1982, they needed 300% increase. Hungary did it more gradually -- and more painlessly.

JS 1) From price bureau perspective. Hard for bureau to suppress inflation. Clearly should take a large share of the culp. Bureau just reports to party ^{and people} org -- tries to keep reported inflation as low as possible. Ideally, bureau should ~~honestly~~ honestly report inflation and its causes -- I did, at Party meetings, point this out -- makes price reform easier. Concealing the whole situation, makes reform more difficult.

2) Gradual vs drastic price reform .. The cat's tail story. ^{1960?} (1st secretary of Party

a minister.) Suggested spreading increase over several years... & got this response...

ridiculed, even. But the 35% increase provoked grave political problems. 300% increase in 1982, with help of bayonet. Don't blitz price reform; but don't do it too slowly either. Have a program, with a target date for eliminating rationing.

Some people advocate big increases in wages when prices increased -- I don't agree -- e.g. minorities lost -- ~~then~~ they grumble loudly -- ^{(but} if you give out with one hand what you take with the other, the overall situation is not improved. I suggest gradual increases in both prices and wages -- with the latter increasing slightly faster [pr gains]. spread the effects of increased purchasing power -- don't concentrate at a few points... thus breaking the dikes. So I favour partial changes -- though I don't know about China.

Market forces: D should be regulated to prevent drastic price increases. (Queuing for Drainers -- has caused a black market.) In Poland, a mutual friend proposed lifting ceiling price on cars.

LZ Now is 30 billion Y of subsidies ^{suppressed} hidden inflation.

WB Subsidies $\neq$ ^{suppressed} inflation -- could just be redistrib... ^{if} financed by money creation....
i.e. if subsidies fuel budget deficit.. cause inflation. [could be any component of budget]

AW watch the credit multiplier ^{...learn how to control avg volume of credit...} don't think in terms of banknotes, esp if you are
(a) effectively decentralising your banking system (allowing local branches to take loans or deposits), (b) making more use of credits; ^{both} as part of reform. Even with no budget deficit, & no Δ # bank notes, money supply can expand rapidly.

LZ Ratio of cash to noncash retail transactions in US; ratio of cash / retail sales.

WB Velocity of circ.

JS Socialist bankers should be like capitalist bankers, and demand good security for their loans, not just rely on promises of enterprises. In Wef, big & small firms go bankrupt. Screen loans very carefully. [Shades of CIB.]

LZ Reasons for success & failure of various attempted Polish price increases.

JS (Prior increases in procurement prices.) After JS resigned, ~~most~~ pork price didn't rise for 14 years

despite heavy subsidies to peasants (incl imported fodder) -- ~~still~~ limited supplies, rationing... strong resistance to price increases. Govt errors thus cost the people dear.

Xu Meizheng Should retail price have been raised when proc price raised?

JS Proc prices should be increased gradually -- ~~at~~ at opportune moments.

WB Polish lessons not entirely generalisable. 1970 30% increase rejected by Polish workers -- but after 10 ^{past} years of near-zero growth in real wages, a Δ incentive system promising future wage freeze.

JS (Stagnant real wages breed problems.) Polit sit in H & P very diff. Polish govt fed people wrong info... this propaganda didn't help. Declining g in USSR/Europ.

Duan J Is inflation ^{what} increase in price index?

AW/WB Yes only if market-clearing prices, honestly compiled indexes. ^{turnover weights} Retail vs wholesale vs ^{weights} COL indexes.

^{diff} COL indexes for diff social groups.

Afternoon
Principles
(Theor.)

(Guide) (Compass)
Quiskinis

Potential & other prices.

2-channel p -- shadow w.

3-channel p --

1980 H Compet prices.

1968 H --

Non-uniform p & sectoral self-financing.

Q6 - make Free Trade point.

Czech - wholesale priced only.

"Dual pricing" -- producer & goods

Wage subsidy -- China already has...

have negative emp effects. (But share effects?) (Quite a lot of "subsidies" paid by enterprises?)

JS H 1968 mainly state pricing.

Xu Meizheng -- thinks 1982 Soviet reform based on 3-channel pricing.

JS on Q6: Premise is continued $\exists$ of price bureau, without direct hookup between world

& dom prices. If you have such a direct hookup, start with minerals & metals.

Problem of ^{big} world price fluctuations -- but socialist countries reacted too slowly -- admin problems

of rapid adjs. Ought to make frequent adjs for major products. Maintain some flex

in pricing in rela to world prices -- $\therefore$ price stability is helpful for prodn.

L2 Basing coal price on world price would cause a major shakeup.

(Guaranteed PLK & utility reg) - USSR used non-uniform p ^{and price book value of assets} $\rightarrow$ ^{or 15%} but reduced price spread.
Soc sec contribs/paysroll tax -- not in China. (Hungary - social exps).
W-capital included in prodn price calc (Enterprise-specific)
25% tax (AC) -- but special taxes/subsidies.
EX P/(K+H) no cc rationale.
Sectors vs Individual products $\rightarrow$ 10% orig value fixed K + working. (less a tax)
modified -- public policy, S & D, international prices

LZ, JS Discussion about ~~maintaining~~ price increase needed to make coal mining p-able (cst. par.).

JS In USSR, oil price $\rightarrow$ profits, coal price $\rightarrow$ unprofitable. Oil priced very low $\rightarrow$ to cover coal costs, you'd have to set price of coal as high as oil! Poland: even coal sales make a loss, X make a profit.

JS For which C goods is market S & D roughly in equilibrium?

LZ For some, balance: for others (trans radios, ^{eg. B&W TVs,} synthetic fibers), surplus [$\rightarrow$ high prices]. Proportion in balance or surplus is increasing.

JS Can you ^{really} buy off-the-ration rice at a higher price? Yes. Non-rationed ^{rice} grain sales small $\rightarrow$ yes. If the price gap vanishes, will you abolish rationing? No... $\because$ everyone would want rice. [Mad answer... shows Q not understood. $\rightarrow$ Let the price go up, that'll contain D.]

Which other commodities have this "dual" price structure? Edible oil... 85 f/jin for the ration off the ration, 7-71.5 for rape oil, 42.0 for peanut oil. 1-3

$\rightarrow$ even at this price, state has to subsidize $\rightarrow$ it doesn't sell well!

$\rightarrow$ LN $\because$ wages low, little substitution effect in China. [Not grain/rice, rape/peanut oil] ^(lard)
Grain rations don't bind, oil rations do. Its the peasants who come to the cities to buy grain off the ration [why?]. Rape oil production has gone up a lot recently $\rightarrow$ doesn't need rationing. [need to lower proc price] (being contemplated).

LZ For each individ commod, price issue very complex $\rightarrow$ a lot so many individual commod.
Oil purchases from peasants up, but not enough $\rightarrow$ price too high.

Xue Muqiao $\rightarrow$ on subsidies $\rightarrow$ said if you raised wages by same amount as you reduced subsidies (raised prices), 30% of families (large + poor) would lose out $\rightarrow$ to compensate them, you'd have to raise wages by 430 billion $\rightarrow$ hence a net loss to budget. [? why not pay some sort of family allowance? must no individual lose by any Δ of policy $\rightarrow$ a very tight constraint.]

Shanghai counterparts



錦江飯店

JING JIANG HOTEL

賀鎬聖 上海經濟研究中心常務幹事

HEGAOSHEN Came to Mo CanShan & arranged program

陳浚青 上海經濟研究中心幹事

CHENWAN QING Mrs

汪杰 上海價格研究會負責人

UANG JE Also came to Mo CanShan - the price expert

陳錫毓 上海經濟研究中心幹事

CHENXI YU Older man

于本成 上海經濟研究中心幹事

YU BEN CHENG Young man

Mr. He GaoShen
 Ms. Zhang Wang ^{Qing} -- Ec Res Centre

Mr. Wang Zhi Ji -- Price Res Inst of Shanghai

Mr. Yu Ben Cheng -- Ec Res Cent

Mr. Cheng Xi ^{Yu} -- young man of ec res centre

- (1) Time of departure Warm ^{bring a sweater}
8.00 am departure
- (2) Meeting 2.30 pm
- (3) Get the names written down.

Schedule

2 groups

Ms.

18th Morning -- boatride on Huangpu DQ to ship. (Time)

Pm -- sightseeing altogether.
... (museum closed Sunday).

19th am Shanghai Machine Bldg Plant -- Director & section chiefs (we go) (2 groups)

DQ
 Procurement & planning
 (sales)
 Price JS. Machinery
 Price JS.

2.30 JS Price Office split into 2 groups.

Pm Wholesale organisation -- corporation -- chemical & light industrial goods. (they come)

Acrobatic show.

20th am Managers of #1 Dept store will come -- but can visit if we like?

Procurement prospects

Planning Bureau for DQ

Pm Seminar - participants incl researchers from Ec Res Inst, Shanghai Plan, Price Inst, Price

Res Inst, Price Office of Bureau, Price Office of 1st Commercial Bureau. (10 in total) --

will brief us on ec sit in Shanghai, & hear our views.

(Actual price office people - women)

Mr. Brus & co arrive.

21st Leave early.

Split between pricing & planning

Drop 1st Machinery building factory
 Wholesale

19 July 82

Shanghai Machine Tool Works

Mr ~~Ma~~ ^{Ma} ~~Ma~~ Liang Ren-qì -- Dep Dir & Chief Engineer.

Mr Fu Dep Dir; Mr ^{Qian Zhimin} ~~Qian~~ ^{Su} ~~Su~~ Chief, Fin & Ac; Xu Xue Qing Section, Planning & Sales.

Started making grinding machines 1950. High-precision measuring instrumts. 6000 workers all in.

2000 grinding machines p.a. 8 shops -- casting, forging, processing, finishing -- 2 for processing & assembling. Cylindrical and surface grinding machines. -- & high-precision (gear and thread) grinding machines. -- incl a constant-temperature shop (3000 m²). R&D section. -- since 1950 devel 400 new products. Own junior high school & college.

From 1980 began to engage in FT -- direct (formerly through FT org) -- 18 foreign countries "and regions." X 10% Σ prodn.

(Well organized, spacious plant, with usual good maintenance. Almost no obviously idle workers.)

(Tmr) Full capacity, now and for last 3 years $\therefore$ high quality products. Other enterprises, lower quality, excess capacity. X % up from 6-7% 3 yrs ago. Direct domestic sales allowed since 1979 -- now account for over 70% Σ . 30% workers F. 90% equip Chinese-made.

We saw 1 Eggerman, 1 US. X to US (biggest), Fr, Wg, Singapore, ^{Romania} -- not mainly to LDCs.

We saw X also destined for Philippines. Make some of own equip. Import content very low -- (1-2%) -- ~~more~~ imported num control equip -- but also Chinese num control equip, which they use through choice -- no problem with importing what they want (through FT corps). -- pose no problem

Under control Shanghai 1st Mach Bldg Bureau. Around 10 machining firms in Sh can

make direct X. Mainly 2 shifts. ^{-- 3 in bottlenecks} Theoretically retain some FX, but very little in practice.

Prefer direct X $\therefore$ superior information flow. To M equip, have to prove not avail in China -- first to Ministry, then to FT ministry. -- eg superior precision Swiss drilling machines.

Prices -- they propose, Ministry has to approve -- most accepted immediately --

Some argts, which they ^(the enterprise) mainly win $\therefore$ they have the data.

(P/S 20%, K/S 1.2.) Export prices they set themselves on the basis of market investigation and negotiation with customers -- no approval required -- at official ER, X profitability & domestic sales profitability.

(Q & A)
Plan and Xu.

^{from} Sales -- planned + direct orders from customers -- last 3 years 1978 -- plan 90%, direct 10%.

1981 30% plan -- ; 1982 60% plan -- why this reversal? Decline to 30% $\therefore$

Transport costs?
A/c's
P selection - effects
Costs
P margin - capital?
Competition - X sales

change in ^(distrib) system + I cutbacks (state D for machines declined) -- 1982 planned I to rise, hence propn planned sales up --- (maybe, could also go the other way?) Philosophy to use factory to full capacity ~ plan targets primary demand -- ~~if~~ ^{these} ~~they~~ don't fully use capacity, then they can make direct sales. Prices on planned and direct sales set the same way -- same price for a given product. ^(pricing) will a new product, have to consult with ^(and reach agreement) their customers before submitting proposed price to ministry. If disagreement, very seldom, don't accept the order -- never send 2 prices to ministry.

~~Price fix~~ if price too high, hard to sell, if too low, problems with profitability.

How has price flexibility policy affected this factory? Can cut up to 20% without permission -- to raise, requires permission of ministry. Have ^{raised} prices for 3 types of machines: by 10%, 7%, 20%. ^{cut} have ~~reduced~~ ^{by 20%} price. Principles for price reduction -- 1) overstocked machines 2) underutilized capacity. ~~ministry accepted~~ -- ~~reduced~~ ^{new} ~~prices~~ ^{machines} each year. [Some dropped.]

^{Not much out of} ~~373~~ types of machines -- ~~bring~~ ^{new} ~~quite~~ 15 or 20 machines each year. [Some dropped.] Arguments ^{was} ~~price~~ increased costs -- improved quality, better materials. Also initial price too low. Generally high demand for machines. Don't have a monopoly, but dominate market for many machines, & in some the sole producer. Produce machines in short series -- hence high costs -- when other machine factories begin to mass-produce, they stop. Now demand fees for transfer of know-how. How many price ~~Δ~~ ^{requests} made -- how many prices would they like to change? No refusals. All the other ³⁷⁰ prices ok?

Relatively, yes, correct in sense 1) customers willing to buy, 2) profitable for them to produce. Profit on capital? 5% on new products; ^{all products} for ~~expensive~~ 20%. (then turns out to be profit on sales). ^{Overall} $P/K = 25\%$ ($K = \text{net fixed assets} + \text{circ K}$) -- ^{depreciation} ~~amortization~~ for individual ~~products~~ products, know P/S, but not P/K (thinks would be impossible). [But how do they calc deprec in costs?]

How P_c set for new products? (1) costs (2) tax (3) profit -- guidelines from state ~~govt~~ on new products P should not be more than 10% of price [amazing how they manage to average 20% !!!] ^(then) this was the old method of setting prices -- new method is to negotiate with ~~supplier~~ customer (since beginning 1981) -- ^{will initially} no clear prior view of cost -- ^{they} then calc costs & price -- if client accept, ~~then~~ ok; if client refuses, they don't accept

In one case price office took initiative

Taxes? Same on all products

price rate - 51% or

the order, [2] Element of risk for them with new system^(after price agreed), but also gives them an incentive to cut costs. Approval by Ministry a pure formality. Profits up or down with new system? - about the same, but risk is greater ($\because$ price fixed in advance) - nonetheless they favour the new system. What if they can't agree on a price for a planned item? Can they ^{then} refuse the order? The ministry gets the plan initially from the enterprise! In the plan, ^(purchasing) enterprise specified, & they have to buy. At any price? Plan mainly covers long-produced machines, not new ones -- with long-established prices.

DG feedback. Since 1979, only 2 ^{output} targets - Σ gross prodn, P... ~~party~~ previously very detailed targets - one for Party secretary to make sure that composition of output is not manipulated to raise total value or P, but remains in accordance with plans, policies and needs of the state. (Our "planned" sales appear to refer to orders for new state CC projects - expansion and modernisation orders handled directly.) (Ambiguity as to whether output limited by demand or materials or I balance.) No choice in who they employ - recruit c. 200 per year (app more than # of retirees). Said no surplus labour. Chief Engineer highest paid man in the plant - 7180 - lowest paid 42, average 68 - manual workers up to the low 100s. ¹²³ Shiftwork pattern quite high - 40.5 per day for younger workers on 3rd shift. Material supply quotas in the annual plan. App no pressure from workers to move shift to more profitable items. } Additional supplies either from other users with excess (cash or trade), or ^{direct} from producers (above-quota). 1992 Mgt As - Director became vice-director of bureau, 2 vice-directors moved to become directors of plants elsewhere.

"Reformed" = no detailed output targets, freedom to dispose directly of a good slice of output, direct X sales, PX retention, P retention, "negotiation" of prices with customers

1982
19 July PM

Chemical & Light Indust Supply Corps of Shanghai.

Dep Dir, Han

Memrs. Wang Fin & A/c sec chief

Xu Planning sec chief.

hou Opns section Ding, Economist.

Sulphuric acid
nitric acid
soda ash
caustic soda
rubber
tires

a/c units.
? enterprises

Han's Brief Intro:

Under municipal MS Bureau -- a specialised corps. [of which I learned in 1980] 22 basic units, incl specialised branches,

retail, also general (comprehensive). 3200 workers. Chems, dyes, paints, rubber, plastics.

1827 types of products. (LI = rubber tyres, plastic products.) Of these, ~~many~~ Planned allocation

goods ~~of importance~~ = 183 types, of which 6 allocated by State (MSB) -- raw materials

of major importance -- the remainder by Ministries of Chem & of LI (rest) ~~remain~~ their local branches

and the municipal MSB. [this corps works out the details.] Corp carries this out. Since early 1960s, ~~economic~~

change in system of Some direct supply, some indirect supply (i.e. this corps as actual intermediary). [long interpretive hassles] "direct"

supply = this corps arranges marriages ^(within plan framework) between producers and users -- but doesn't

handle goods. "Indirect" = they actually handle the transfers of goods. This system

continued until 1979 -- good in that plan dominant, bad in being overcentralized

and neglecting horizontal links. Now market forces allowed to play a suppl role --

~~now~~ producers can sell ^{output} some directly, and can determine prices -- diff from this corps's supply price

Also some "subjective" changes -- improving circula of goods, and this corps retains

some profits. # of units supplied by us has gone down -- but ^{planned allocn} still a/c for 97%.

total volume of trade in ~~these~~ ^{the} 183 goods. Demand in 3 categories -- shortage

goods, balanced, surplus goods. -- try to increase S of shortage goods, increase sales of

surplus goods. Regional barriers broken down -- surplus goods can be sold in other

provinces, shortage goods purchased in other provinces. [this corps has also organised a ~~market~~ market for chem products --

enterprises ~~large manufacturers~~ ~~manufacturers~~ ~~enterprises~~ buy and sell products "to meet emergency needs"

-- fairs at regular intervals, ^{also} market in a particular place, every day (localities outside

Shanghai participate also), people bring samples. -- of the 6 state-allocated comods, above-

plan amounts can be traded -- other ~~now~~ 1821 comods also traded -- a new products

can be brought to this market -- transactions value c. 10% ^(corps) total sales volume.

In past 3 years, new policies have yielded benefits -- ~~the~~ material supply smoother, better

balance between D & S, prodn of priority goods improved, fill gaps in plans, etc. --

Centre allocates to Shanghai -- the municipality does the suballocation between enterprises, etc -- of CS&D

What about the risk?

more competition between enterprises has improved service, quality. Increases in their sales volume (1981/1979) -- 16%, profit^{up} 40%. All only means of prodn -- no c goods. Corpn retains profit^{assist} to improve welfare of employees, & arouse their enthusiasm. -- also increased total floorspace of warehouses (by 10% so far), putting up 13000 m² of apts for workers. Better medical services, financial support, other welfare -- up 30% over 1979. Bonus^{also} up 30% (1981/79). "All this has borne witness to the correctness of the policies of the Party" -- but problems -- plans have to be readjusted after they are made. [As worldwide]

DG In what sense, regional barriers broken down -- there must have previously been interregional trade? Yes, but only planned -- ~~market~~ innovation is unplanned interregional trade.

PK For the other 1600 products -- does their org have a monopoly? -- controls 80%.
etc. ~~Then~~ can purchasers ~~not~~ have a choice? Our corpn has wide links throughout the country -- enterprises prefer to deal through us.
Who fixes prices? Multi-tier system -- state price bureau, municipal price bureau
But not by his corpn, which operates with fixed prices? Their supply prices based on ex-factory price plus costs ~~margin~~ -- for some products (of major importance), prices fixed by state/municipal price bureaus. -- his corpn sets supply price for new goods (empowered by MS Bureau).

What do the 3200 workers do? warehouses, transp, retail, repackaging.

JS Are your opinions on prices solicited as part of price-dec process? Price-fixing power over supply price of new products, given ex-factory price, on basis of distrib costs -- but no profit -- an experimental price, then a formal fixed price -- changing which requires municipal or higher approval.

But are ^{your} opinions on market credits solicited by price bureau? Yes ^(app frequently) -- they have a finance and price section -- 6 people ^{working on prices} in corpn HQs -- + people in subordinate units & branches.

Corpns usually wants to raise or to lower prices? Corpn wants to stabilise prices.

AW How many of 1827 prices Δ last year? For 183 products have to make a market survey

~~Discussion on price control~~

each year -- may require modified -- report last year. (Repeated the q.) About 50-As (up + down)

if surplus allowed to reduce ^{price}? Basically, no -- but if overstocking, will try less, & will then ~~negotiate~~ ^{negotiate} with ~~producer~~ ^{producer} -- if producer decides to float price downwards, ^{their} corporation will follow suit. Indeed if they observe excess S and high profit in production, they will report this to higher levels [who presumably will then lean on the producer to reduce price.]

PK ^{exactly} how is price set? Does it include P? Corp'n aims not to make a P, ^{just to cover costs.} But what about all

this retained P? In principle, don't make a P, but in practice do, ^{∴ difference} between actual cost and theoretical cost (eg ^{standard} mgmt fee, transp cost, allowed ^{in setting supply price} for -- but they cut corners and save money -- eg ^{forcing} letting users ^{to} do the transportation ^(they're meant to do!)).

JS An old trick in socialist countries -- exploitation of monopoly of distribution
JS Sales -- cut-price -- for substandard or overstocked items? May sell substandard items at cut price. -- (compensation if producer at fault).

DE 183/1827 in ~~value~~ value terms? ¥1.55 billion Σ sales value -- 183 are 40% of total.

Can corp'n ^{directly} ask producers to produce more or less? Not with the 183. With the others, we can make suggestions or give advice... to the producers.

PK Shortages + surpluses -- how many of each, and which sorts of goods? Too complex and variable. (Really?) Really. (HI $\rightarrow$ LI didn't cause surpluses and shortages of various goods?) Yes, it did have such an effect.

Priorities in allocn? State allocn gets priority. -- (no satisfactory answer.) If 3 factories want the same input, we give the input to the factory will produce best quality output at lowest cost.

Separate sessions on prices with Mr Wang

JS How many people in municipal price bureau? c.30

↓ How many prices would they ^(have to) set in the course of a year? Only ^{some} ~~uniform~~ prices within their scope -- others set by relevant bureaus. In LI, watches, radios, fridges prices ~~set~~ recommended by industrial bureaus, approved by price bureau. For TV sets, prices set in Beijing.

How many price decisions (As, new products) in the course of a year? 1979 ^(when state) -- raised prices

if pork, eggs, milk raised, municip price bureau had to adjust prices of related products (eg ice-cream) -- in conjunction with relevant bureaus.

Who prices textile goods? Cotton/synthetic Min Textiles/Commerce.

So what does municipal bureau set prices for? Bureau exercises "centralized leadership" -- (more on multi-tier system).

Fruit & veg prices? Locally fixed procurement prices, also general wholesale & retail prices -- vegetable corporation allowed to modify ~~prices~~ downwards. Because perishable goods,

Artisans products prices? Handicrafts bureau. What about handicrafts transported to other localities? Set upwards modifications within a certain range also permitted.

in that locality -- in line with Party policy on pricing -- i.e. proc price + transp & distrib costs + a certain P margin. [But proc price set in Shanghai, programmatically.]

Do veg proc prices ^{thus} vary between localities? Yes. Within provinces? Yes, may vary from county to county.

Local state industry prices established by local ^{industrial} bureaus -- a local MSB. Municipal price bureau's job is to supervise the price-setting activities of all these other bureaus.

Does it simply then approve price lists drawn up by these other bureaus? Factory comes up with exfactory prices -- submits these to its superior bureau for approval -- then some items (specified in a catalog) have to be approved by price bureau.

What about retail price (eg of a fridge)? Also set by industrial bureau. (✓!) What about commercial dept? → It makes recs on the retail price to the industrial bureau -- which then sets both exfactory and retail price.

(Sales tax set by central ministry of finance.)

Who arbitrates disputes

over eg retail prices? (Eg if commercial dept thinks distrib margin too low.) Not common, but if happen, price bureau "arbitrates." ~~disputes~~

20 July 82

Shanghai 1st Sept store ^{Pre-liberation, was the Wing On store -- the Wing then did it all over again in Hong Kong.}

[Perhaps 30% bigger than the big one in Wangfujing Street -- on this rainy Tuesday morning, very uncrowded. The usual rather good selection of goods -- our colleagues say much improved in the last few years.] [Biggest in China, apparently.]

Director, Chiefs of Business Dept, Finance Dept.

5 storeys, 35,000 m², of which 17,000 trading floor space. 29,000 kinds of commodities -- 4,000 new ones in the last 3 years. Only a few imports -- electrical, photog. Before lib, commodities mainly imported. 2540 workers -- average age 34. Winter open 8am - 8.30pm.

[7 days a week] Summer the same. (?) workers get 1 day off. 200,000 customers per day -- up to 300,000 on crowded days. Sales ¥700,000 per day -- } long-term annual increase 6.10% p.a. usually -- higher in last 3 years. -- 28% 1979/78, 16% 80/79, 3.4% 81/80 [very interesting pattern] 81/78 1.6% [or 2.6%?]

Assortment of goods has also increased -- esp more high quality goods -- eg ^{synthetic} woollen rather than cotton fabrics -- 81/78 cotton goods down 33% [now], woollen up 59%, synthetics up 143%. [i.e. their prices down 15-20% in last 2 years], } knitting wool sales up 121%, knitting cotton down 60%. Fabric colours significantly changed -- from near-

universal deep blue ^(the purple preferred) to a wide variety -- modelled on the West -- has thus become harder to meet customers needs -- have to reduce prices of goods that don't meet customers needs. Bigger demand for durables -- fridges, TVs, recorders, washing machines, etc.

TVs: 1978 5276 sold, 1981 up to 17068.

Recorders 1980 7313 81 15073

Washing m. 80 3000 81 5558 -- 10% of below 18 people now have one.

Fridges 80 918 " 1014 -- and fridges are expensive.

Sales of home furnishings also greatly increased lately -- eg lamps 81/78 up 68%.

perfumes } " " 367%

glass } " 109%

toys " doubled.

Marketing channels: formerly, industrial products all subject to plan -- didn't meet needs of marketing. For LI/textiles, 4 forms of marketing (since 1979) -- "market to supplement plan" [all know the right phrases] (1) State buys & sells everything -- eg cotton fabrics -- all has to be sold to commercial depts, (2) ~~Plan~~ Planned purchases -- factory can sell above-quota prodn directly -- woollen fabrics, watches, bikes, sewing machines,

(3) ^{order} Contract purchase -- ^{industrial bureau or sector} ~~factory~~ can sell most now contracted prodn. -- ^{plastic} ~~organic~~ products,

small metal products. -- no obligatory production plan for these goods -- only an indicative (reference) plan. (4) selective purchase... no plan. -- eg bags, washing m, fridge.

-- 3 categories under this heading (a) great diversity of sub-types, (b) market conditions fluctuate, (c) new products. [When does a new product cease to be a new product?]

Basic goods fall mainly within scope of plan. New and new commodities subject to market. Progn of (3) + (4) has increased -- but (1) + (2) still the bulk [wonder what is the share of above-quota in 2?] ~~market~~

Sources of procurement for (1) and (2)

3 ~~sources of procurement~~: (1) wholesalers in principal indust cities buy goods ~~mainly~~

(2) other wholesalers in communications centres -- his store buys from both (1) + (2) -- and also (3) direct purchase of above-quota prodn from factories. Can also easily communicate customer preferences through (1) + (2).

Do prices for some goods differ depending on which of these 3 sources they come through?

(1) + (2) generally the same -- ~~but~~ ^(the) prices could be lowered by wholesalers. From ^{source} (3), price generally lower ~~higher~~ [But there are industrial goods.] ^{for food, above quota prices} presumably usually higher.]

Industrial sectors now pay attention to market, $\therefore$ not now guaranteed to sell all they produce.

^{eat} ~~Market~~ (3) ~~in shops~~

								Share of sales
In category (3),	50%	comes	directly	from	factory	(rather than via wholesalers)		c. 25%
"	(4)	80%	"	"	"	"	"	
(2)	90% 5%	"	"	"	"	"	"	70%
(1)	0%	"	"	"	"	"	" (mainly rationed)	

But direct factory ^{purchases} ~~stores~~ especially important for hot items (store approaches factory) and slow items (vice versa). $\rightarrow$ { 1978 -- 4.4% total purchases. 1981 -- 25% " $\leftarrow$ [a lot]

What share products produced in Shanghai? { ^{used to be} 93% -- only 7% from other regions. now 82% -- 18% " "

(This shop doesn't sell ^[ship in] food -- or only a small amount -- canned goods, etc.)

$\rightarrow$? Relates to problem of regional autarky? No protectionism in Shanghai ~~for~~ ^{and} ~~border~~

factories in other regions copy Shanghai and try to compete -- also other provinces exercise protection (Shanghai products the best!). [natural protection.]

How retail prices set? For category 4, set by relevant ^{industrial (corporation)} bureau in consultation with price bureau -- each industrial corp has a pricing office -- 2nd ~~store~~ ^{level} wholesalers under leadership of industrial corp [?].

Regional price differences. In general, store has no price-setting powers -- but can ^{unilaterally} lower prices for categories 3 & 4 when in excess supply (apparently defined standards of excess S). ~~the store can offer a lower price to the consumer~~
higher authorities must be consulted if price reductions would amount to more than 1/1000 of previous years sales of that particular commodity. [Sounds rather restrictive -- but higher authorities may usually consent?] (Store really isn't tied in to the whole price issue? -- not their business.)

With direct factory purchase, negotiate price with factory, but then have to obtain approval of superior industrial corporation -- if approved, ok. [Basically freer than it sounds prima facie.]
Competition between stores in Shanghai? Yes, in terms of meeting ^(ii selection of goods) customer demand, and quality of service.

If they supply materials to factory for processing (eg clothing), ~~store~~ can negotiate price with factory without superior approval.

Workers wages & benefits? Only small increase in # workers needed/expected.

Dismissal power? (Eg a thief) Experimenting with (a ~~few~~ ^{very few}) dismissals in Shanghai -- don't in general dismiss for disciplinary reasons.

Can people ^{have to} ~~seek~~ alternative work? Eg. if they live a long way away. Yes, if some other employer is willing to take them on -- easier if he moves to another commercial unit. If moves to an industrial unit, labour bureau has to be brought in.

Retain some profit -- if above-target profits, can pay benefits to workers. Bonuses paid out not ^{usually} on individual basis, but to groups of about 30 ^{sorts of} people -- basic accounting unit, or to groups of 5-6 people ~~on~~ selling specific commodities.

Share of bonus in Σ wages -- averages 2 months wages.

Have built 15000 m² housing since profit retention -- but most of retained profit used for collective not individual benefits.

Profits rose 80/79 18.4%, (annual) bonuses up 723.5. / 1980 9125.3 (bonus level)
81/80 4.3 " 78 — 1981 133.3

Participants in Shanghai Price Seminar

(Mr Gao -- Shanghai Inst of Fin. Eco., interpreted (very well).)

姓名

(拼音)

单位

李鸿江

LI HONGJIANG

上海价格研究会负责人

~~王~~汪杰

WANG JIE

"

"

"

李鑫庚

LI XINGGEN

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杨子勤

YANG ZI QING

上海市物价局研究所研究人员

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"

"

"

章和轼

ZHANG HE SHI

上海轻工学会价格组负责人

20 July 1982 Price Seminar

Mr Li -- Price Res Shanghai Municip (Chief)

Mr Li -- Res Inst 1st Commercial Bureau

Mr Zhang -- Res from Shanghai Price Bureau

Mr Yang -- "

Mr Zhang -- Light Industry Bureau Price Research

But this inflation was not caused by absence of admin controls on prices!

Presentation on Pricing Reforms in Shanghai in Past 2-3 years

Most prices fixed by state -- contributed to socialist construction & maintaining people's livelihood.

[No coincidence that all price discussions start from 1949]

Pre 1949, vicious inflation -- clear memories for over 40s. 1937-1949 prices up million-fold.

~~in 1930s~~ People want price stability & have had it since 1930. Two problems:

rigid prices has caused divergences between prices and values; prices too uniform -- spoil operation of market mechanism. → Since 1978, have introduced multiple price forms: floating, negotiated, and free.

9% floating (1981)

Floating -- relative to state fixed price -- electrical apparatus, machinery, metallurgy, construction materials -- Σ 600 commods. Downward (surplus) more common. Upward floating (scarcity) very rare.

Negotiated -- from Q2 1979 in Shanghai -- 5 categories of ag products -- edible oil, non-basic grains (eg millet), dried fruit & veg^(incl peanuts), fruit, fish -- about 100 commods in all -- about 2% of Σ C in urban Shanghai

Free (market) since 1979 -- ^{new} 67 markets for ag products in Shanghai -- 1/3 goods sold are fish & other ag prods, 1/3 meat, pork, eggs, poultry, 1/3 fruit & veg. Again about (>) 2% of Σ C.

→ Small, but very useful to people -- also in stimulating prodn.

Also tried to adjust unreasonable prices -- eg, upward adjustment of ag proc prices, -- up 27.9% over past 3 years. Peasants in suburban Shanghai gained 7500 million

-- raised peasant ^(annual) incs by 4100 per capita. Raised prices of coal, pig iron --

our price of tractors, stainless steel (?), other goods. Retail prices -- ^{Shanghai R.} price index

~~increased~~ up ⁽⁷⁹⁾ 1%, ⁽⁸⁰⁾ 3.4%, ⁽⁸¹⁾ 1.1% food up 1.1%, clothing down 0.5%,

daily mass 0.5% down, steel goods up 0.3%, pharmaceuticals down 3.8%,

fuel no change. Yet living standards up -- 1981 average income 7870 per worker, vs 1978 4672. -- up 29.5% -- or 19.7% in real terms.

Future ^{reform} country-wide problem -- discussed repeatedly in their research inst, but with no soln -- theoretical and practical problems -- ① reconciliation of price stability and price

Σ C. 4%
 Σ C

Not exactly vicious inflation!

adjustment, ^② ^{reln} price reform and other reform, ^③ What would be ~~scope~~ scope of different agencies after reforms.

JS Speech. Only 2 weeks experience of China.

Ch ec system & prices seem a sensitive and fragile problem -- $\therefore$ incomes low, $\therefore$ problems of price reform more diff ^{in China} than in E.Eurp. Eg in H, Yug, now inflation -- in Yug esp rapid.

Such inflation in China ~~could~~ ^{could} be disastrous -- ~~also~~ need ^{long} period of stability after ER -- to recover. $\therefore$ in the next 5 years, substantial rise in retail prices could

have bad effects. What seems a small price increase to us ^{in E.Eurp} (a few yuan), is a lot to a peasant ^{or worker} who earns money by the fen. Now doubt E.Eurp experience of

^{much} relevance to China -- but we must think about price-fixing system for China -- again, no neat model from E.Eurp. Even Soviet experts think their price system a hindrance.

Hungarians use X.M prices as reference -- shouldn't follow this eg in China [!!!]...

also it have given up central control -- China shouldn't do this. Prices tangled up with rest of economy -- hence in next 5 years, find a price system not on.

And that ^{Ch} price system not as rigid as prima facie appeared -- esp for non-vital commodities. (like an egg -- a hard shell, but a soft interior). Market prices vary

naturally emerge in negotiation between commercial depts and producing firms. Political

fear of RPI increases -- in socialist countries... need to justify price As. But don't be too afraid of doing anything for fear sky will fall on your head.

[AW on reconciliation of price stability & price adj:]

3 general points 1) Problem looks less serious when precisely defined.

2) Price stability not (simply) job of price bureau -- ^{bureau more impr} MoF, PBC, ^{labour}.

3) Downward price adjust ess -- price bureau may have to move beyond its passive role ^{approving} of price lists drawn up essentially by industries -- who don't want to reduce prices.

Specific sugg on adjusting rel prices of C goods. Divide ^{goods} into categories, within which close substitution -- set ^a specific tax and subsidy rates for each category on social grounds -- but within each category, base relative prices strictly on

Report
Don't put in good other current reforming what should be continued
Don't put in, take together

economic considerations -- be they cost of prodn, world prices, or S&D.]

(Big) Li Tell us more about Polish price system.

JS Don't introduce it into China! Only talked about reform, until probs became too serious to carry it out [my paraphrase]. Foreign debt probs... a Polish ^{crisis} ~~problem~~ in general. Can't avoid price rises for basic necessities. Military govts price rises -- some as much as 2X. Wage supplements. Dole, Rationing had to be introduced -- butter, sugar, meat (but not bread). Cap util probs $\rightarrow$ X $\downarrow$, etc, etc. Polish indust firms can fix ^{themselves} prices $\rightarrow$ inflation. 3 probs: raw materials, grain, --(?).

Wang How to control prices of private enterprises in Shanghai -- an exposition. Collective & individ enterprises new & expanding. -- (1981) 1527 collectives run by street offices, with 17800 employees. -- 95% increase over 1980 in # firms, 58% in # empees. -- Expanded Shanghai comm network, improved daily life. Price policy ~~was~~ principles for such firms: --

- (1) collective comm enterprises have to sell ^{goods} for same prices as state shops if they get their goods from the state, (2) if produce by themselves outside Shanghai, or produce ~~by~~ themselves, use state shop prices as reference, ~~and fix their prices~~ but have somewhat more flexibility, (3) services -- again fix prices with state prices as reference $\pm$ 15% for discretionary margin, (4) private individuals even more flexibility -- can often negotiate charges with customers. How do they do it in EEnt?

JS EEnt has a handicrafts network. ^{control prices of private enterprises} H, Poland the same network, but no effort made to fix prices. Tax policies vary between countries -- some favour small enterprises, some don't. In Russia, state/private all much the same -- private handicrafts illegal though numerous. -- black market services widespread. In H, Poland -- ~~with~~ private enterprises can hire 5-10 people. You could go further in Shanghai -- create more job opps in small businesses. Encourage competition... good also for state enterprises

AW Are these controls effective -- or do they just exist on paper?

Wang -- tentative -- preliminary.

AW Leave them alone, don't try to regulate this sector, whose strength lies in flex and adapt. Competition should take care of excessive prices and profits. More generally, don't try to regulate

too many prices -- it can't be done effectively. Agree with JS that Ch price system more flexible than it seems -- ~~also~~ similarly for pace of movement toward increased flexibility. Basically this is good, but negotiated prices in the state sector make me nervous because of high degree of monopoly -- especially for means of production. ~~Monopoly~~ socialism. More competition may be essence of reform -- macro policies to avoid sellers market, but also micro changes -- including letting collectives/individuals enter state-dominated sectors. Another eg of interrelatn between price reform and other aspects of reform.

(Other) Li How to reconcile price system with system for circula of goods.

JS Free up both simultaneously -- eg bicycle quotas associated with rigid prices. Not just price bureau's job. Admit ^{freely} that some prices will have to go up. ^{+ extent} Timing of ec reform ^{in China} beyond his competence.

" Li Retail/wholesale margin in EEup?

JS ~~not~~ (Has some relevant materials)

AND Price/wage ctrl in ec reform. ^{Hungarian.} Yugoslavs inflation -- how do they deal with this problem?

JS --- Yug model not approp for China ---

21 July 82

WB on what they learned in Zhejiang

- ① Suburban commune.. brigade-level silk-weaving enterprise (girl worked 350 days/yr, 42/day). Household .. driver for municipal conste ^(ordinary wage-earner) bureau, wife a commune member. New house ^(5 yrs old) .. cost 45000 -- built from his saved army wages. Another hh -- man also worked ^{as a loader} in town .. but belonged to team, ~~which~~ which received his wages and gave him workpoints. [How is that handled in LP stats.] Clearly all fouls up the distributed collective inc stats... but per workpoint earnings meaningful .. 17-30 fm range between teams. Resp system -- contract out some tasks -- eg cows/milk Not very striking.
- ② Collective enterprise -- ^{1500 workers} large -- 2nd class state enterprise -- wages not guaranteed -- if losses, have to borrow & repay. More financial resp for own expenses. Scissors... 25% exported. Unanimously wanted to become a state enterprise (their directorial appts even less democratic than in state enterprises).
- ③ Ag procurement .. SCM Corp. A bust. No system change. Talked quotas the whole time. Replaced .. 30 mill kg quota; raised proc price ^{estab} above-quota price premium -- procured 260 million kgs !!! Prodn above the above-quota quota ^{now} gets the quota price. (Quota raised to 60 mill.)
- ④ Price bureau ^(provincial) .. Same old stuff. Eg scissors factory ... corp -- municip indust bureau -- provincial indust bureau -- provin price bureau.

DG on Planning Bureau Mtg

Shanghai materials allocation system since 1979 unique -- local allocn of partic commodities to all sectors, rather than vertically segregated allocn hierarchy. But scope & success unclear.

150 products allocn planned

70% materials needs covered in usual way, 30% by various other channels and scrounging (incl from other provinces).

Shanghai bicycles de facto rationed

Chongqing program

(2 groups) $\left\{ \begin{array}{l} \text{industry, commerce. (1)} \\ \text{ag. prices, finance, banking (2)} \end{array} \right\}$ 7 visits each.

W (6.30) evening Dinner .. C. ASS & Eu Inst.

Th 22nd am (1) Electric fan mfg -- merged 7 plants. (2) Commune -- cash crops.

pm (1) Ch iron & steel works -- 3 years standing rwp system (2) Brigade enterprise

Fr 23rd am (1) Clock & watch corp (2) Prodn brigade -- grain. (as far as airport)

pm (1) Wholesaler of daily necessities (2) District tax bureau.

Sat 24th am (1) Collective enterprise: electric wire. (2) Ag bank.

pm (1) Presentation by us on EExp. (2) Seminar given by people from price bureau.

Sun 25th am (1) Presentation by Ch. Eu. Commission (2) Banking, tax, pricing, labour people to talk about

esp "plan and market."

(One evening a boat ride, also to highest point of Chongqing.)

Evening choices: hot spring bath park, sightseeing in Chongqing or hang around hotel.

Mon 26th am Leave for Beijing.

((am = 8 to 11.30) -- leave the establishment.

((pm = 3 to 5.30-6.00)

(municipality)
Chongqing: 6.4 million people, 10,000 km². (2.3 million city dwellers.)

22 July 1982

WB - report on Enterprise Visit

A strange federation of 7 collective units, producing electric fans. Apart from main assembly unit, were parts of larger collective enterprises. The latter produced the components, and shared in the profits of the federation in proportion to their costs -- but handed their shares over to their larger parent organisations. [Similar principle to commune member who earns wages outside & turns them over to the commune.]

They had a production plan -- aggregate # fans & value of output -- but free to vary product mix according to market demand.

Wages more or less on a par with state enterprises, ^{but} ^{other} benefits better -- mainly because they got to keep all profits after tax (the usual collective tax system, I suppose). So they didn't want to become a state enterprise.

No worker democracy.

Material allocation within the usual plan framework.

22 July 1982

Jin Long Commune

Pai Zhong
Mr Zhao, Director

Large, besetted.

[An urban commune -- right in the city.]

Mr Li Guilin -- chief of the Pan Long Prod'n Brigade.

7500 mu, 6800 collectively cult, 700 private plots.

6 prod'n brigades, 61 teams. 17000 commune popn... [Outworkers?] < 0.5 mu per cap. Mainly veg --

3600 mu. 1500 mu animal husband (ducks, fish) and flowers. Good policies have caused

recent ex growth. 1978 ¥5.8 million ^{gross output value} collective income (of all 3 levels together)

1981 ¥12.27 " "

proj 1980 ¥14.0 " "

Accumulation vs Distribution:

low taxation continues, with some tax exemptions...

1978 ¥106,000 tax, 1981 ¥330,000 [wow!]. "Accumulation" ¥872,000

in 1978, ¥1.4 million 1981... accum ^{≡ nondistributed income} (social benefits + accum for inv, etc.). In addition,

depreciation ¥800,000 -- cumulative total of 1978-81 (400,000 1981). Residual was

distributed 1978 ¥2.873 million (¥169 per cap) -- [NB doesn't add up ∵

remainder is prod'n costs] 1981 ¥5.2 million (¥303 per cap). 1981 what propn

in cash? Over 90%. [∵ valn of in-kind prodn not much of an issue]. ... average

monthly "advance" now ¥20-25 per worker,

These improve due to new policies. former diversification of prodn ^{varied ag activities} -- crops, processing,

even commerce now permitted. 1978 grow grain in small q's -- little industry, little

sideline prodn, little commerce. 1981 inc from indust + sideline prodn 60%. 2 prodn...

~~sideline prodn~~ ^{pigs} stockbreeding, fish, poultry ~~commerce~~ ^{sideline activities} What are sideline

activities? Ag = veg, forestry. Industry -- building materials (brick), leather shoes,

water pipe factory, processing of ag products (beer + wine). Commerce -- restaurant.

Sideline prodn ^{part of} wages earned by commune members outside... they retain 30%. (I get work

points.) So ag prodn has grown rather little? Ag ~~production~~ ^{Vegetables stable}

But other ag up. 1978 1981
-- c ¥2 million. Pigs, cows -- ¥288,000 -- ¥400,000.

Fish ¥9,000 ¥270,000

Increase
Partly due to sale of above-quota produce at local markets for cash.

Cash-kind distrib?
Own-ems, valn. Non-member residence?
Private plot allocn -- Δ size -- rules
Birth planning problems
Finance for educ, health services
Basic grain allocn rules -- deficit families.
Quotas + Δ + suballocn (Δ grain).

[less than state quota]
13,000 hogs ^{raised for market slaughter} ~~slaughtered~~ in 1981... collectively (40%) and privately (60%) -- sold 8000 to state as per quota, 2000 on market, 3000 own - c.

Latent-mgt Δ: past over-centralism, not enough payment acc to work. Resp systems since 1978 -- various forms -- but essence is tie payment to output. Assigned to groups, ^{or} households, or individuals. Good result -- efficiency up by > 100% (effic = output value per worker [at current price]). 8900 workers -- in recent years 3000 in non-ag prodn -- # engaged in ag prodn has gone down (though ag output up). Income differences have widened (hard working / lazy, skilled / unskilled) ^{up to} 71500 ^{for a highly-skilled able-bodied worker} [> urban w], down to 9500-400 for less able-bodied, less skilled -- a 3:1 range. In 1978? Less than 2:1. More worker enthusiasm to acquire new skills.

State veg price up? No, not for veg -- though for other (incl fish) up. Propn veg sold on free market? 40% (of collective prodn). Retn state / mark veg prices? Mark 30-40% higher... ^{in high-season} State prices vary seasonally. ^{if overproduced} sometimes could be lower. State veg proc quota 1981/78? Not in terms of volume, which has gone down somewhat, but varieties and quality up.

Mark = direct, or to state at higher prices? 82% commune people sell direct.

3 Above-quota higher ^{state} price? No. In Chongqing veg S > D -- state doesn't want to buy surplus. [? makes price differential odd.]

Director appointed from outside.

How do you get to be a commune member? By birth (full membership at 16). Marriage -- if you marry a commune member, with approval, can establish residence and can, but need not, be a worker.

Commune ^{basically contiguous} a [geographical entity -- but within its ^{boundary} are some state factories, offices. Commune territory has shrunk. 12000 mu at establishment of (1961 -- in present form) commune] -- but several 800 mu requisit since for non-communal purposes.

How many non-member residents? c. 30% of hh have one such.

Any elected officials? Chief officials are elected -- every 2 years re-election.

It really is hereditary.

How many members work outside for wages? 15% of ^{commune} workforce.

Can dissatisfied commune members leave? Generally, no. ? Can you set up as a self-employed private outside craftsman? Have to get formal approval of commune ^{...nominal qualifies} granted for only one person per family.

Can you work part-time at collective activities? Hasn't come up. ? A set working week -- or flexi-time? Q of lesser relevance under resp system... individs, hhs, groups ^{now} choose their own working hours.

People from poor communes who want to join? Have to have approval of all members of prodn brigade -- but unusual -- intermarriages more usual (100 per ^{gross} year).

Comm. expenditure issues

^{obtained} Grain on state urban rationing system, or what? Not self-suffic in grain. ^{Comm. target is} State supplies 32 jin per cap per month -- deduct ^{communes} own prodn -- state supplies remainder in form of rationing urban rationing compens.

Private income in cash, kind, retained wages? ^{collective grain} 1.2 million jin of grain (410 per cap). ^{Survey} Sample of hh ^{private inc} av 4100 per cap, with substantial varn -- could be up to 3-4x this or down to < 450. Veg sales, pigs, poultry, wage retention all included.

Private plot allocn up in last 3 years? No... short of land. ? Any reallocn among households? Yes, some ~~soon~~ recently. ? Rules for ~~that~~ private plot allocn? Strict per capita basis -- averages 0.04 mu per cap. ? Give me more land for my 4th child? Allocns remain fixed for some years. ? But at reallocn time? In the past, would have got more, but not now. Max 2 ^{children} per couple -- usually one.

TFR in last 5 years? Don't have data here. General trend drastically downward.

^(ICDR) 4 years ago "birth rate" peaked was 30/1000; ~~natural of 24/1000.~~

? ^{here} See over.

Has resp system had adverse effects on birth planning, birth rate? Not a major problem on this commune :: resp ^{here} mainly assigned to groups, rather than hh or individ.

1975 22.6

But aware of problems in other communes. (Group = 10 hh.)

	nat g rate / 1000	women of CB age	Births
1976	8/1000		
1977	5/1000		
1978	5.98		
1979	10.32		
1980	11.69	3807	332
1981	12.47		

↑
say g due to
more childbearing
age women.

"Don't have" data
for other years.

Educ

Commune prim + 2nd schools -- or go to state schools? Commune 3 prim, 1 lower
sec -- but at all levels, most children go to state schools. ? Pay eddit
fees? No.

Health.. some questions? Commune level has health workers, preda brigades have
medical care stations. Intra and Outside-commune health care financed half by the patient,
half from commune funds. ? Any change in coop medicine since resp system? No.

No tax on private plot income.

Sample survey done how? By commune staff members, with help from ag, finance,
tax bureaus -- but survey ~~done~~ done on commune's own initiative.

Who decides which private hogs ^{go to} meet state quota at low price? In the past, stipulated
that 1/2 of each hhs hogs went to state. Since last year only an agg state
target -- collective shortfall ~~are~~ allocated evenly among hh (amounts to less than 1/2
their prodn). ^{NB} [Δ in incentive pattern]. Had trouble selling all the hogs last year
(actually sold 8200) -- not the 8000, just the excess. ~~big price difference between state~~
People ^{last year} wanted to sell to the state -- ∴ price higher, + incentives [25kg of feed per hog > 65kg.
grain allow]...
glut of hogs, not enough cold storage. Where does rest of hog food come
from? ~~collective grain each hog gets 40kg~~ ^{per} if you give manure to commune,

communes will give you 15 kg of grain per hog. Scraps from urban sources -- collectively ^{from factories} gathered and shared out. -- also individually gathered from apartment buildings.

[Commune residents basically indistinguishable from other urban residents in terms of income, education -- same schools --, food rationing, clothing & general appearance. Director agreed but said a recent phenomenon. Also agreed that recent rural policy is esp favourable for his sort of commune -- but noted that other, more rural, communes had more land per capita. Lived in individual housing -- no collectively built apts.]

We then went off to see Mr Li's brigade -- shown both private plots and collective land. Tour of a ^{collective} piggery -- lots of pigs of various sizes, in well-built system of pens (like railway) -- piglets supplied to households for raising at a nominal charge. We all had to dip our feet in disinfectant. Then to a distillery -- joint venture of commune and brigade -- malting sorghum (all neatly arranged -- for us?), fermenting, and distilling into maotai-like liquor, of which we were given a sample... said to be a lucrative business.

22 July 1982

Workers from which teams? ? doesn't matter?
Wages - workpoints
Div of enterprise inc. {Earning vs. vs share.
Some of funds
Resp system.
Enterprise depends on state?
Outside scope of plan.
Do last 3 years?
Any material supply from state?

Mr. Zhou -- Head of (suburban)

Pai
He Prodn Brigade of Shi Chiao Commune. [Tin mugs with the name embossed.]

(2 rather attractive ladies)
Wang from Commune, Mles of prodn brigade / men from brigade enterprise mgt staff.

Mainly veg -- diversified economy. 9 teams and an enterprise. 648 hh. 2318 people.

1280 workers. 885 mu cult land .. ^{0.38 mu} / cap. 611 mu veg, 141 fishponds,

134 private plots and cash crops. New policies since 1978 under guidance of Commune

party office. Reinforced political educ -- a impl resp system. Readjusted internal

relns within prodn brigade. Tried to keep veg prodn stable, while mcr indust

a sideline prodn. Output = income ^{= living standards} / up.

Enterprise & its contribution.

1965 389 hh in prodn brigade, 1415 people, 754 workers, 1266 mu cultiv.

(no enterprise)
¥133,000 gross output value, 759 / cap 349.

1975 593 2146 1102 1048

490,000 (89,000 from enterprise), 4127.

1981 648 2318

2.25 million (1.212 from enterprise), 4494.
(34% up on 1980) (13.6% up on 1980) (39.9% up on 1980)

Potential source
of industrial
competition

1975 started grain processing plant, rubber accessory (subcontracting) plant, pig farm.

1979 "paint mfg plant, knitwear, ^{spray} painting plant, furniture, recycling.

Restaurant. Good for commune and for needs of urban popn. Has helped

accumulation for expanded prodn. 1978-81 (4 yrs) £ 7335,000 net profit

-- after taxes, distribution to brigade members, etc
established a pension fund for brigade retired members, as well as I.

PK Why these particular enterprises? From 1978, diversification encouraged... "supported" by related

factories in urban areas -- eg paint factory couldn't meet all its orders -- wanted to

expand prodn, requisitioned some land of prodn brigade, but also decided to "leave
(subcontract)

some work" to ~~the~~ brigade -- supplied skilled workers to provide guidance, & took

on brigade workers for training. [JS -- just as with subcontracting in W -- but

furniture contract.]

In 3 years from 1979, brig provided Σ 780,000 to teams to expand prodn. Enterprises also provided jobs... 1978 ^{+ brigade emp 253 members of this brigade} ~~comm~~ ^{enterpr}, 163 in this brigade's enterprises

1981 478, 317 " "

More taxes for state: 1979-81 Σ 7148,000 (brigade) 722,000 (teams) .. of which 7300 from commerce. (300 per worker)

Raised per cap inc of brigade (dramatic increase 1975-81).

Fixed Assets of brigade up ^{end-} 1975 7120,000, enterpr floor space 1300 ~~1000~~ m².
~~enterpr floor space~~ end-81 7799,000, 5300 ".

Dev't of enterprises ~~entirely~~ financed entirely by retained profits and compens for land requisition. -- no state grants.

1975-75 output up 12x
 assets 6.5x
 D.C.Y 3.9x
 tax 6.4x

One enterprise: (chroned) Polishing of outer shell of thermos flaskes -- subcontracting for a factory. Changing
 738,000 assets, 418 m², 25 workers, 7150,000 annual value of output ^(thus) didn't cost the state anything in 1 .. done at minimum cost.

Another: rubber accessories

7115,000 assets, 587 m², 55 workers, 7300,000 annual output. Materials ^{mainly} from recycled scraps -- 90%. ? Idea conceived how? Throwing away of scraps suggested this idea to retired worker from ^{the} rubber factory, who suggested ~~that~~ it to this brigade (no particular reason why this brigade -- [again fortuitous]).

Another: painting -- subcontracting overspill of small items, trade marks, etc. [? less profitable work for the ^{large} factory, $\therefore$ more labour-intensive.]

Labour for enterprises readily avail. Skills -- send people to factories, invite skilled workers here. Better managed than state enterprises -- more imp't of payt according to work. Good combination of industry and ag -- flexible allocn

of labour, according to Ds of diff kinds of work. Good in all sorts of ways.

Not enough skilled labour.

Management ^(quality) indicators ^(for individ enterprise): prodn expansion, effc, quality, technol level, safety.

-- monitored by a committee (board) at brigade level (enterprise mgt office)... a director, dep director -- not elected (appointed by brigade, approved by commune)... has

an office with 4 sections (prodn, lmg, finance, marketing & prov). Each enterprise an indep a/c unit ... but unified control by prodn brigade.

^(distribution) Annual plan drawn up at the beginning of each year (enterprises pay workpoints not wages) -- monitored monthly. Workpoints on basis of individual output,

^(quality .. in rela to) quotas, observance of rules & regs.

JS Material supply limits their prodn? Not rubber -- endless scraps.

PK Typical emp 20-50 people? Better results through specialisation? [No - not in subcontracting world.] Thinking about this.

Usual way of ^(making) ~~contact~~ contact with large enterprises? Meetings org by municip govt for ^{state} enterprises, commune officials -- municip govt urged formation of linkages.

No slack season in ag -- go for diversified prodn $\therefore$ land scarce.

Enterprise mgt can decide ^(enterprise) emp level? Yes. ? Can he choose workers? No --

the enterprise mgt office decides. ? Can he get rid of unsatisfactory workers? Yes,

in principle.

after repeated effort to educate -- not a single case of this. ? In slack D

times, can he send workers back to ag? They just rest, but work very

^(10-12 hrs/day) intensively when they are working. ? If losses imminent, do they cut work

points to avoid? Theoretically, resp for losses, but in practice never sustain

$\therefore$ divide up VA between workers -- [??]

losses } Value of work point varies between enterprises -- per worker

annual earnings varied between ¥1200 and ¥800 in diff enterprises. [But both high.]

? But what about P? [They don't distribute all VA] At beginning of year, profit targets and tax payment ests made -- $\therefore$ have to determine wage in adv [??]

? ^(in advance) fixed P, workpoint value residual? Profit ^(average) 4% gross output value -- specific

% of output value fixed as P in advance (varies from enterprise to enterprise), also on

may vary
between
enterprises

absolute P target -- any excess ^P divided between workers and brigade. [later
confusion.] [as to what is fixed, what residual]. Beginning of year, ^{fix} ~~workpoint~~ ^{workpoint value}

He now says this
average
1988
earnings

~~overcompany~~ ^{annual target} (¥600), also P target. At end year, look at ^{actual} P.

Suppose projected nonlabour costs 40% ^{gross} value -- & turns out to be 35% -- the 5%
could be distributed (or vv). ? Suppose gross value above profit? [more confusion.]

? At end yr, after paying nonlabour costs, & labour according to prefixed
workpoints, there is a surplus; what happens to it? At beginning year,
projected monthly payments, eg ¥50. At end year, if decide should be
¥70, make retroactive payments. ? ^{How} ~~many~~ decide should be ¥70? ~~retroactive~~
⁷⁰ % of excess P ^{distributed} goes to workers, 30% to brigade. [Well at least we
got a logically consistent answer at the end].

2030 p.m.

Then to see their knitwear enterprise, which turned out to be a shop
that made up knitted pieces into garments and packaged them. A lot of
ladies working at sewing machines and packing, with one man putting
straps round the cases. A not-too-unpleasant sweat shop. Average earnings
allegedly ¥1300.

En route to the hotel an argument between myself and JS on the one hand,
and on the other PK, who thought the whole show was a put-on. Either
the numbers ^{about growth} were cooked, or it had been achieved through an unadmitted
massive injection of state funds. PK was tired and irritable. But on his
side he had the fact that Mr Zhou was unimpressive -- not a credible dynamic
entrepreneur (or indeed anything else)... which made one wonder who had
been the mastermind behind this spectacular expansion.

The next day on the bus, we quizzed our local hosts about this
brigade and its enterprises. They said this brigade ranked in the upper
middle class of success, but there were some more successful ones. On
sources of finance, they said the 3-year tax rebate was very important,

and that the subcontracting ^{large} enterprises would help with equipment -- eg by giving obsolete equipment. Also some loans, some at zero interest -- but in their view not a substantial proportion of the total -- (impr exp during the 5-small-industries campaign -- but this was prior to 1976). In Jiangsu,

EL says, ^{from} ag accum impr -- high rates :: ind so much more lucrative than ag -- he'd seen this mushrooming phenomenon there, too... partly :: Shanghai factory expansion restricted by land shortage → subcontracting.

As regards problems with competition for scarce raw materials, main way of tackling was to remove tax rebate in certain sectors -- local CBE bureau would implement on orders from (local) planning bureau. They had actually forced some CBEs to close -- no compensation.

Tax basis? They weren't clear.

↓
[reformed] watch enterprise visited by PK & JK was paying tax as 0 % of net value added -- net of depreciation, that is.][I seem to recall the same was true of the Chengdu textile plant.]

DG subsequently made a much stronger critical pitch -- namely that this subcontracting was make-work, which could have been done by the surplus labour of the parent enterprises. Hence gross output was increased, but not net output (which might even be reduced by the additional transport needed, and possibly by lower efficiency in the use of materials, ^{energy and capital}). [Plausibility of this view increased by Lin Ling saying that much of this subcontracting work result of ^{fairly recent} a campaign directed at state enterprises. [Even if true, why not then lay off state enterprise labour.] Same argt could presumably apply to some urban collectives. Against the DG hypothesis, which on balance I don't believe, is that by no means all urban enterprises have surplus labour, that even those who do are sometimes constrained by space, that subcontracting

is common in all countries, that state enterprises would be reluctant to incur the inconvenience of subcontracting out work they could do themselves, that no evidence of decline in state industry net output ^{in period} when CBEs expanding rapidly. Even so, if DG were right, it would be important, $\therefore$ it should be investigated. Although even if he is right, not obvious that this a bad thing -- eg as a method of income redistribution, or transferring resources for rural development, or developing rural labour skills.

23 July 82 Jing Gong Brigade of Gele San Commune.

Resp system.
Payment methods.
Work points?

Prodn Brigade [about 1 hr drive from Chongqing] ~~Chongqing~~

Older leader, other officials ^{and wife}... presentation given by a lower official... younger & less battered in appearance. (27 yrs old, born on commune, attended middle school)

Overview

2877 mu cult land, 17 teams, 1270 hh, 4805 people, c. 2600 workers.

Vegetables, and also grain. Mountains terrain disadvantageous. ^{Shortly after liberation,} ~~grain~~ grain yield

100 kg/mu, veg 500 kg/mu. Water consrv, new seeds, & 1978 reforms →

1980 700 " ^(2 crops) 5.000 " 1981 41.9 mill gross output value... ag 76.3%.

DCY/cap 4210. Sideline prodn, machinery. ~~1980~~ 1981.. 6000 ^{raised} hogs (collective & private).

140 dairy cows... milk 200,000 kg. Fish ~~5000~~ 2500 kg. Tea also 2500 kg.

Melons. Grain 1.4 million jin .. mainly rice, & wheat & some corn. Veg 13

million jin. 7 trucks, 20 tractors, 54 items of powered eqpt. Grain processing

factory. Machinery maintenance shop. Prefabrication plant. Foundry. Shop. Garment factory.

GV enterprise output 4450,000 1981. Introduced cooperative medical care -- 50/50

cost split again. Teams now well connected by roads -- all hh have elec light,

a growing # with c durables. Brigade has primary school, teams have nurseries.

Resp system

Began in 1979. Basic a/c unit remains team -- contracts betw hhs & team. 2

systems 1) linking payment with output; 2) contracts for specialized work... eg pig raising.

→ The "five ~~contracts~~ ^{basic} ~~contracts~~ ^(labour, volume): land area, output (value, costs, income).
quotas and one reward system.

ii. Rewarded if you go above quotas.

Good results -- incr pv -- payt acc to work... incr effc land use.

Give us a more detailed eg?

Veg: output ^{vol} target 10,000 jin/mu, value target 4500/mu. 80% of surplus goes

to the group (20% to team) -- group size varies from 10-40 workers... land they

cultivate allocated in propn to # of people -- average 1 mu/worker Grouping

chosen by team or self-selected? ~~Both~~ Both, in diff cases. All ag ^(crop) prodn

now org at sub-team level. Cost savings can be retained by group -- eg fertiliser,

Choose crop? seeds, etc -- savings relative to preassigned target costs. → can group composition

vary between years? Basically fixed, but # labourers can Δ marginally... eg

deaths. Land given to groups also ^{basically} fixed from year to year. 3 principles for

group org 1) voluntary ^{Assoc.} 2) contiguous land, 3) natural condits .. but basically the team ~~to~~ can adjust .. eg moving ⁿ workers from 1 group to another. ? What about smaller groups? Don't want, because ^{would} interfere with ~~the~~ fulfilment of ^{a multiple-cropping} daily delivering quotas .. makes more complicated. Also :: many varieties of veg ¹ :: high technology, :: veg requires a lot of pesticides [i.e. some vague idea of scale econs]. In this area, usually the same ^{pattern} -- only a few cases of delegn to hh (usually in case of ^{brigades come on} grain, rather than veg) @ ~~some~~ ^{apparently} ~~some~~ (This all refers to the first system .. not the ^{second} contract system.)

Quotas, targets, etc.

specialised co
under commerce
bureau.

~~Ministry~~ Get ^{output average} targets for each type of veg -- passed down through the hierarchy from municipality down to team (via district, commune, brigade) -- which then signs a contract with vegetable supply co (brigade also has to sign such a contract). However levels have opp to negotiate ^{over} targets -- which are annual (given at end preceding year) -- seasonal adjustments

a born in prod mix made (acc to ^{market} D. ^{exceptional} climatic factors) in these contracts via negn between brigade and veg supply co (in a cooperative sort of way). Annual ^{target} quota as propn of Σ output? Last year target 11 million jin, They produced 13 million jin

Within -10% + 20% of target counts as fulfilling target. [Sensible] Veg co provides some seed (+ helps with org prodn) -- seeds also from own-prodn, seed station.

Above quota output disposition? $\begin{cases} \text{Eg} \\ \text{Target } 100, \text{ contract for } 90, \end{cases} \begin{cases} \text{produce } 100, \text{ have} \\ \text{to sell all to veg co.} \end{cases}$ If contract 120, produce 120, can force veg co to take all, or can sell up to 20 on the market. $\begin{cases} \text{[sic]} \text{ [odd]} \\ \text{State} \end{cases} \begin{cases} \text{fixed} \\ \text{prices} \end{cases}$ fluct with season... contract specifies average annual price. If produce 140 .. can offer surplus to veg co -- not obliged to take it, but may try to help.

? Quotas passed down to groups? Yes, but prodn team will ~~always~~ always set group quotas so that ^{their sum exceeds} team total by 20-30% .. as a safety margin.

Export group can directly sell above-quota output in market -- doesn't have to hand it over to team [but must presumably hand over 20% of the proceeds -- gross or net of costs?] [Earlier description suggests gross.]

Costs .. groups rent tractors from teams (rent covers depn as well as V.C.).

Costs include
tax

Cost quota fixed as % of ^{gross} output value -- based on experience of past 3 years
-- generally 20% of quo, for veg. (Fixed between team & group.)

basic a/c unit ... has to plan its costs. No shortage of inputs -- no problem of supply. ^{Eg} team supplies group with fixed amount of fertilizer at no charge?

^{Is a} charge -- group ~~operation~~ is an a/c unit, and keeps a "book" with the team, in which input "protheses" recorded.

Labour .. ^{gross} minimum group size fixed -- min # people per plot of land fixed -- but group can take on more people if it wishes.

Remuneration -- fixed on workpoint basis .. if they meet other ^(land, labour, output, costs) quotas, they get eg 1000 workpoints. ^{if} Exceed targets (in yuan), 80/20 distrib paid in cash. Workpoint value depends on ^(whole) team income. (3-5% accum/transfer welfare.) ? if fail to meet targets? Deduct workpoints -- in principle -- but make allowances .. last year no failures.

Workpoint value last year 12-20 fen between teams -- average for brigade 15 fen.

? Serial correln of ^{team} ret/mis? Generally, but some changes -- eg improved mgt.

if Dec 20, how much ^{extra} did groups get from above-quota prodn? ~~about~~ c. 10%... but varies from 0 - 20%.

Second system - contracts for specialized prodn

Eg. Pigs .. all team's collective pigs given to 1-3 workers. Otherwise similar to system 1.

Pig group members ^(mainly women) will not be members of veg prodn groups. Also machine repair, cows, tea, fruit trees, some veg.

Team workers may also work in brigade enterprises .. gets workpoints from brigade and participates in brigade distrib system -- not in team distrib system -- although brigade may give ^{team} some money :: team provides him with infrastructure. Again workpoint value varies between brigade enterprises (as yesterday).

(Raining too hard to visit fields)



Conversation with Chongqing colleagues in bus on way back:

These ^{vegetable} communes around C atypical of Sichuan in applic of resp system. In 80-90% ^(in Sichuan cases), descended to household level - allocation of land to each

hh on basis of hh size, land quality (the only distributive element in the process), then hh get to keep proceeds of everything they produce (quota deliveries funnelled through the team), with some deductions for tax, team and higher level accum, welfare and admin. No workpoints.

Deductions sounded like some propn of output value. Distinction between contract land and private plots remains, but getting blurred. Land divided up winter 1980.

Birth planning -- some problems - rise in TFR -- mainly because ^{system of} per capita land allocn [not mp labour on plot of given size] -- have basically to

stick to this ^{system} in that can't penalise people who had many children

in 60s When birth policies totally different. But now modifying it, so that people who have more children now don't automatically get more land -- also with 1 child get a double-allocn of private plot for the child.

Another cause of problem is simply that under new ^{regional} system all administrative supervision is less intensive. They didn't seem very excited about this.

Health & educ services "crop health service" has broken down in 20-30% cases -- mainly poorer areas, with few profits from CBEs. "Breaking down" = disappearance of brigade health station. Commune health station -- which has some state support, remains. And so do most barefoot doctors, though they

become privatised -- patients pay them, and for medicine. Cause of breakdown said to be mainly disappearance of crop spirit with devtn of prodn to hh level.

Causes problems in preventive / epid health -- but app not in contraceptive supply. (most FP ops done at commune level). No such problems with

primary educ -- partly ^{more} state ^{financial} support.

Relief funds remain. Grain guarantee has melted away - but mainly because everyone now well above min.

重慶百貨站接待世界銀行考察團名單

經 理	劉 邦 源
第 一 付 經 理	車 仲 旭
第 二 付 經 理	徐 華 熙
經理辦公室主任	左 世 海
秘 書	陽 克 鏞

23 July 1982

Atk channels for sale
of goods?
comp at wholsale level?

Finance of stocks?
margin? det?
"Rationing".

Chongqing ^{Procurement} Daily Necessities Wholesale Station -- a 2nd level station (1st level only in ³ big municipalities).

One of six such ~~and~~ (others hardware, chems, elec equipt, textile & knitwear, ?). [Obviously an archaic classification -- based on distribution of industry at liberation.]

shoes, clocks, s. machines,
writing materials, cosmetics,
photo, sports, crockery,
furniture, etc.

[Physically amazing -- like the Ming Tombs -- with a lavish display of goods.]

Photographer
in constant
attendance

Mr Liu (very solemn & unsmiling) ^{Overview} : 835 staff of which 123 ^{admin} mngs. 2 offices, 16 sections, 1 shop.

8 of the 16 operational/business, 2 transp/storage, other 6 mgt.

Daily necessities 637 categories, > 22000 items.

supply ^{Chongqing-} ~~produces~~ products to 192 counties, some in Sichuan, some elsewhere (eg Guizhou) ^{to} 282 county level wholesale stations. Each year, in acc with state plan, also supply 2nd level wholesale stations in other provinces & cities.

Non-locally produced goods supplied to 36 county-level wholesale stations. As

regards local products, ^{in effect} serving as a 1st-level wholesale station. [2nd level don't procure directly from producers?]

Estab 1953 .. 422 million ^{proc} turnover of local products, 421 million ^{Lproc} outside products, with 436 million sales in Sichuan province, inventory 715 million.

Big expansion since then.

1981 4280 million proc of local products, "a few million" outside ?

4335 million " " inv 4128 million

Ratio of Chongqing / ~~total~~ total sales ^{proc} 83.5% ... outside 16.5%

Efficiency: annual profit 47 million [last year.] ^{more or less} independent accounting unit ..

5% profit retention

System Restructuring since 1978... has increased eff. Plan with subordinate mkt

(presented as if it were his idea). ^{General:} Multi-channel circ, instead of state monopoly.

Service quality improved, more products, etc. Specifically, here, A planning, more product variety. Down from 10 central mins come orders for 4 diff

forms of proc & marketing (1) centralised (0%) (2) ^{obligatory} planned (above quota) (3) ^{freedom} indicative planned (applies to producer, and to wholesale station) -- accounts on average for 50%.

2 proc volume .. only ^(negotiable) advisory targets (4) selective purchases in line with mkt D

In ^{obligatory} ~~planned~~ ⁽²⁾ planned proc involved 28 varieties -- now only 10 varieties. Other 18

now subject to contractual ⁽³⁾ proc -- indicative plan. Together, 2 and 3 account for

80% of proc. -- "important" products ^{The 10 are} rubber shoes, soap, sewing machines, watches, laundry & personal

In the past
Categories
2-3 would have
been in system
-- in the plan.

matches, thermos, paper, pencils, detergents.

Another Δ in supply: greatly reduced # of intermediaries. In the past, 9 2nd level wholesale stations (for daily necessities) for ^{procuring} Chongqing products, now only their one. Has improved circula [and cut competition?] and reduced admin barriers.

Increase in product variety and sales volume (up 30% as compared with period with 9 stations [how can they tell?]). Transport time ^[interval between leaving factory & arriving at county wholesale station?] reduced by 1/2 a month. [?]

(Some products ^{-- above-quota --} shipped directly from mfr to county wholesaler, others pass through us.) Deal with > 100 mfrs ^{some small...} going through us reduces marketing costs.

Effic of county wholesale stations up. "Price differences" between regions .. eg ship to Hejiang county .. price difference of 1% in wholesale price (between place of prodn & place of sale) now accrues entirely to county wholesaler. (Essential ^{of difference in} function)

Price is to provide a P margin to county wholesalers.) [Transport costs?] Δ mode opn ^{in order} to increase sales of Chongqing products, etc, etc, have joined hands with 22 county wholesale stations .. joint marketing operation to deploy local initiative ... bigger turnover at lower P margins the aim.

(In past, 2nd level station would get 6% margin + ^{reg price diff} 1%; keep 2.5% pass 4.5% margin on to county wholesalers ^{of} the 2.5%, 1.5% was cost, 1% pure profit.

We have ^{now} "decided" to pass this 1% on county wholesalers .. [ie ^{redist} shift of total margin between diff wholesale levels]).

→ Provide T.A. to county wholesalers. Sales volume greatly increased.

Joint opn with ^{Wanjiang} prefecture ~~region~~ .. ie estab a substation in Chengdu ... covers large portion of W. Sichuan ^{services} (104 county wholesalers) ... more efficient, quicker supply, good stock of items in demand ... sales vol up 50%.

Within wholesale station have applied resp system: in 7 opnl sections, have targets, ^{realization} progress checked monthly ... increases staff involvement. Eg cosmetics section .. ^{5%} 29% increase ^{1st half} this year in [~~2 same confusion~~] net profit ¥174,000 → 7247,000.

(Net profit = sales - all costs incl wages.) [Inventory treatment?] [50 sections are indep a/c units.]

In storage & transp sections, ^(big) norms set & cc a/c on a group basis .. each

Straws are real straws.

? Perhaps under compete pressure from other wholesale sources? -- as below.

group has 6 norms to meet -- trade of equal shares broken.

All sorts of improvements have resulted.

New problems arising from reform.

All related to forms 2 and 3. ~~Financial~~ Planning has failed to keep pace with introd of new policy. In past, everything ~~was~~ planned (oblig) -- well.

Prodn + distrib targets dropped, though proc target retained. Eg. ^{Suppose} Sichuan needs rubber-soled cloth upper shoes -- 30 million -- but produce only 60% of this.

∴ 40% must come in from outside -- but ∴ multichannel operation -- duplication -- too many shoes shipped in by various different ^{organisations} ~~ways~~. And we're left with stock on our hands. (We have a proc plan, they don't -- apart from the 10 2nd level wholesale stations -- ∴ buy in an unplanned fashion.) [Oh, dear.]

Entry into wholesale trade by people other than state wholesale orgs -- has resulted in stiff competition, disruption, blind operation.

Eg county level ^{wholesale} -- SCM corps, goods + materials station, ~~by~~ neighbourhood industries, CBEs, service corps, even schools + govt offices. Can't have a plan.

Problem with above-quota industrial ^{producer} sales. A good idea from some points of view -- ^{such sales} but have app included more varieties than they should. Commercial dept get the hard-to-dispose of goods, the hot items are sold directly -- regardless of obligations to state procurement agencies -- to earn higher P margins.

Another problem -- diff prices for the same product at retail level... this should not have happened.

Exploratory efforts in reform -- how to give dominant role to state plan? As follows: (a) category 2) products need legislation, guarantee of law, ∴ so imp't -- need continuity in policy, execution of plan to fullest possible extent.

(b) better balance between ^{production} producer + ^{circulation} marketing -- improve market forecasting and info -- to achieve comprehensive balance

(c) rational ^{geographical} distribution of industries -- match local S to local D. [This

A deluge of different drinks.

is most illuminating -- actually anti-reform.] Eg plastic shoes -- in past produced 12 million pairs -- very high P -- # mfrs greatly increased ("rushed in") -- prodn up to 30 million, with provincial 3 only 20 million.

(d) Structure of 2nd level wholesale station. Is its existence justified? Divided opinions. Our opinion is: in a medium-sized city with good transport facil & developed ind, should be upgraded to 1st level (as in our case), (ii) ^{fairly} good supply & circ -- reinforce 2nd level stations, (iii) ind underdeveloped, limited volume supply -- 2nd level wholesalers could be abolished. Generally ^{should be} reinforced as a link betw prodn & distrib -- an imp't role... facilitates... promotes... better meet market D... better alloc goods & materials... better balance betw S & D (act as a "reservoir") ... holds costs down.

Bank loans to 2nd level wholesalers: ~~bank~~ interest has gone up from 4.2 to 6 per 1000 per month. Cost of running wholesale ops up -- adverse effect on ops... can only keep inventory for 3 months -- more than this would cause a loss -- but even 4 months would require us to exert ourselves [Oh dear]. ... We're not a retail shop, with speedy turnover -- we're a reservoir -- have to cope with seasonal varns. Requested a lower i rate for 2nd level wholesalers. ... One season's stockpile -- should get ^{a basic alloc} ~~minimum amount~~ of interest-free loans... ^{before C.R.} ^{also free loans} as in the past, from the bank for working capital.

[Now pro-reform.]

Pricing -- before major system changes, should achieve some flexibility in prices -- (a) ^{allow} seasonal differences -- floating within a certain range, (b) widen price differences for diff qualities & spec, (c) widen price diff between regions.

- [Apert from direct factory purchase]
- ? ^{goods all} Chongqing official proc through this wholesale station? -- Gansu lower-level wholesaler would approach Gansu 2nd level, who would approach this 2nd level wholesaler.
- ? Chongqing retailers obliged to buy ~~there~~ from this station? In theory... but in practice now competition in the wholesale trade -- in categories 2, 3, 4.

~~Quotas that can be sold?~~

Big ch dept ~~store~~ store the only retailer who can buy here. ? Small ch retailers?

They go to 3rd level wholesalers (at least that's the official way).

? Do they have to procure full category 2 quota if they can't sell the goods? Can make a suggestion to higher levels that prodn be reduced. This problem occurs... but they hope to eliminate.

? Can they negotiate a lower price ^(with producer) for slow moving (not defective) goods? Yes, from time to time, this happens.

? 1.5% margin? Big diff betw ex factory & wholesale price -- ⁶ ~~12~~ - 12%, ^{depending on} ~~margin~~ ^{negotiated} commodity (given to them by higher authority -- outcome of discussions between industrial bureau and commercial depts) .. if they sell to county wholesaler, he gets 4.5% .. if to other wholesalers, they get 6% .. residual is kept by this 2nd level wholesaler (cover cost + P). No tax at wholesale stage.

^{agrt}
Top pay 7112.

In theory free to choose ^{in recruiting} workers, in practice not.

Can you make a bad applicant into a warehouse worker? Yes, after repeated re-educ efforts.

[NB unlike every other org we've visited, he didn't tell us about his wonderful growth of profits and turnover .. perhaps because they've declined. The first person in China to say to us "the reforms have hurt me and made my business less profitable and my life more difficult" .. though he did want more price flexibility.] [NB existence of market was preventing him from fulfilling his plan.]

for PK
to ask
AN 04/08

人民賓館

RENMIN GRAND HOTEL

电话 Tel 53421 电报挂号 Cable 4199

A. Wood's

TAX QUESTIONS

For each of the following types of enterprise, what exactly is the base of income/profits (not turnover) taxation -- value added, actual profits, profits calculated on the basis of a notional wage, or whatever?

^{3 systems.}
1) reformed state enterprises, 2) large urban collectives, 3) small urban collectives, 4) urban self-employed, 5) commune & brigade enterprises.

What are the tax rates for categories 2) - 5)? Do urban collectives get the same tax holidays as commune and brigade enterprises.

When an unreformed state enterprise makes a loss, what happens? Is money to cover the loss provided by its superior industrial bureau out of the profits of other enterprises controlled by that bureau? Or is the money provided by the tax bureau? Or what? (Losses of this sort never appear in fiscal or budgetary statistics.)



apply for exemption
absorbed by the tax bureau

中国重庆人民路175号

175 PEOPLE'S ROAD CHONGQING CHINA

28 July 82

PK on ~~about~~ the tax office meeting [EL has transcript.]

- ① Ind - Common ~~tax~~ ^{turnover} tax: taxed on volume of comm transactions ... ex-factory sales, retail sales, wholesale exempt. 30 tax categories, 17 rates. 3% - 66%.
↳ 3(5)% in retail trade & services.

Temporary activities ^{mainly} -- individual -- taxed at 10%. Tax levied also on ag procurement
0-40% eg. edible oil 8%, rice 0%. Transp 3-15%.

② Ind & Common Inc Tax

mainly income = ~~residual~~ ^{profit}. Formerly 4 rates, 5-30%;

progressive -- lowest rate on ≤ 7000 p.a., highest ≥ 40,000 p.a. Now 8 classes,

1st tranche 7% (≤ 300) → 55% (≥ 80,000) ... ^{... levied on PROFIT (with actual or imputed wage)}
Only for urban collectives. For CBEs, uniform ^{again base ~~on~~ ^{presumption} ~~on~~ ^{P calc with an imputed wage (EL checked)}} 20%; For S&M collectives, uniform 39%. Individual enterprises

taxed on monthly basis -- also 8 rates 7-55% ... 1st tranche (≤ 55 p-month), highest

at ≥ 4250 per month ... income calculated after deduction of imputed wage of ~~members~~

in this enterprise (450-60?). ^(20 more workers) For collective enterprises, taxed 6-monthly, with
adj adjustment at end year. ^{in practice} in most cases too complicated to ^{- eg poor accounts} administrative, so they

just make some rough estimates. Some exemptions, decided by municipal tax bureau.

So loss-making enterprises apply for tax exemption. (Don't know what happens if loss exceeds tax.)
apparently not uncommon.

Reform ... affecting ^{② large} ^{3 systems.} local state enterprises ^④ state takes 50% P .. from remainder,

6 items ^{paid in (3) predetermined amounts} ~~amounts~~ ^{satisfied} .. new product dev't, enterprise expansion, welfare, bonuses,

fees on fixed assets, fees on w-cap borrowed from state ... any residual is taken by the state as an "adjustment". Virtually the same as the old system.

② ~~40%~~ tax on V.A. ... ^{other} 60% used ^{first} to

pay wages, then ^{remainder} at discretion of enterprise. V.A. net of turnover tax, tax on fixed assets (0.02% monthly of orig purchase price) [c depts]

③ State & some collectives. Instead of turnover tax, pay quasi VAT at 10% for machine-building, 6% ag machinery.

3 a variant -- turnover with rebates for tax paid at earlier stages. [Genuine VAT.]

Many recent AS. Even in small urban collectives, ^{50%} tax abatement of above-
1979 tax assessments. ^{get} ~~exemption~~ exemption of turnover tax for 1 year ^{for service, 3 yrs for prodn} and

income tax for 3 years -- as ^{used to be} with CBEs ^{now abolished} ^{except for profit for community's own consumption.} since middle of 1981 for all sectors of activity.

for individuals, 10% ^{tax} on temp activities ^{on inc} is above 460/month in services, 4120/m prod.

now 80 " " 180 "

--- income tax rate reduced in every franchise at present.

23 July 1982

Evening meeting with Lin King

Xu Ming in attendance.

(disinterested & intelligent)
What do the critics of reform say?
Ends vs means?

WB Doesn't anticipate major ^(system) changes in next few years. ∴ (a) ~~address~~ ^{when} macro I picks up, less slack, room for experiment, (b) social role of enterprise v. imp - unlike EEep ... enterprise provides welfare services of all kinds -- incl pensions & soc security ... makes applic of cold economic showers much harder -- no statewide, independent welfare system.

LL [Very quiet] [but confident and charming] [of system reform] ~~Basically regressive~~ Problem emerged in 81, no avail soln, so no new measures & some reversals.

∴ comprehensive reform plan envisaged, + need to evaluate past experience (both with ^{recent} reform and with 1st FYP, which might rather good) ... also experience of EEep/USSE. Reform in entire cities, rather than individual enterprises. 8-10 yr time horizon... of Hungary.

At least, it's good that everyone is discussing reform. -- need consensus. Enterprises like reform.

Top & bottom like reform. Habit & inertia. But he is impatient.

WB Ch reform -- in ag -- ^{if what we are told is true.} already more fundamental than Hungary. Treat this as the core? ... build outward?

LL Since 1978, ^(sorely lacking previously) ag progress indeed central -- look at all the food in the country fairs ... don't look at the dept stores. 1st step was (22) to expand private plots (in Sichuan) ^{from 4-6% → 15%} -- sent a tremor through the country. 2nd, group contracting. 3rd, hh contracting (now c. 80% teams). [How much mileage in small farming with no wage labour?] But hh devaln, ^{caused a} series of problems: ^{in areas} cap where poorly planned and managed. ^(pure hh system only temporary;) Also need to ^{retain} ~~maintain~~ ^{socialist} ethos of collective system...

3 Sichuan county expts -- some activities should be team-managed (irrigation, pest control, seedling transplantation) -- or even brigade or commune-managed (also ag educ, educ, health, welfare). How to integrate these 2 approaches.

Need to develop socially-oriented enterprises -- eg seed cos at ~~county~~ county level -- also plant protection cos, accounting cos to supplement inadequate team a/c-ing, biogas cos... help in constructing biogas facis.

Desult of CBES -- integrate ag with rural commerce & industry... incl VI (forestry, silkworm, fruit, tea). Picked up this idea from Yugosl.

Separate admin from econ fns of commune... expts in 3 counties ^{good results --} to be extended to 19.

Admin becomes "shang" ^{again} -- orig Ch local govt unit ... econ fns in an integrated corps... no longer ec orders handed down ... brigade becomes a village ^(then) again. Obligatory ^(prod'n) targets

-- incl land use -- have inflicted great damage... eg double-cropping of paddy ^{in S} forced, with adverse results. In CR, even date & time of ^{seedling} planting was specified -- in 1975, too cold on that day (he was on the farm), so they all died. Proc targets ok... :: prices too irrational to allow free response... eg rapeseed problem... glut, but don't dare lower proc price. Average targets would now be ignored.

DG Manpower planning. Ec ^{so much} ~~late~~ determined by birth -- & immobility -- makes widening income disparities ^{even} less tolerable :: poor can't ~~even~~ move out. Any reaction?

LL Services probm. Hh resp system has made ^{error} labour surplus more conspicuous... households with a lot of workers are worse off, despite having more land. Contract some of their workers out to hh with few workers. Without admin controls, ^{large} flows from poor to rich, rural to urban areas. [? But managed flows?]

DG If you class suburban communes as urban, rural-urban gap widened by CBEs.

[If urban enterprises have so much surplus labour, why contract out? Lack of land?]

LL Facts suggest otherwise. CBEs growing even in truly rural areas.

Social reaps of enterprises: correct. Since P retention, all sorts of orgs (eg enterprise mgmt assoc) sponge off enterprises. esp where located in remote areas -- ^(incl police, courts) mini-societies.

∴ advocates A in social service/welfare system -- shift to state. Thinks feasible... :: just shifting burden of cost from one place to another. [EEhp experience suggests not so simple.]

MoF claims P retention a cause of budget deficits -- LL denies.

In collective enterprises, probm even more acute -- workers support retirees (in addition to their own aged parents, perhaps).

RW Managed migrn flows? (As per CSED.)

LL, XM De facto has been some voluntary migrn from Gansu, Sichuan to Xinjiang and other labour-

scarce areas. Also China so socially rigid that you couldn't insert newcomers into

a village. ^[Famine probes into a town] Transmigrn project in 1950s in Sichuan a failure -- the people returned.

As did educated youth (but hardly a fair example).

Admin restrictions on popn movement not that strict (at least between rural areas).

[Absence of wage labour may further impede mobility.] Ideal, pol probms in desult of real

collective sector... seen as inferior, transitory, empty... & official policies ^{basically} don't favour ^{by} [more] pompering of state sector than shackling of collective sector.]

重 庆 南 岸 电 线 厂

接待人员名单

姓 名	性 别	职 务	
刘 德 蓉	女	厂 长	Lin Dir
周 泗 玉	女	付 厂 长	Zhou Dep Dir
游 恒 足	女	财会股长	CS
陈 解 生	男	工 艺 员	
王 汇 文	女	质 检 员	

24 July 82

Appts?
(1.6 tax rate)
except freedom.
lab det.
market - poor - plus
finance.

Electric Wire Factory -- large meeting room, beautiful flowers.

Ms Lin Director -- welcome -- both pretty tough

Ms Zhou Dep Dir -- presentation -- particularly intelligent, attractive looking.

Mr Chen technician

Ms Yu Fin. Mgr

Ms Wang technician

- ① Collectively owned -- District level -- 354 workers, 91 men, 263 women. Initially mainly women -- ex-housewives. 3-level mgmt system -- plant, shop, group. 5 sections -- prodn, tech, fin, mark & supply, general; + 1 office. 3 shops. 22 technical staff. 8811 m². 657 pieces of prodn equip + 15 pieces of maintenance equip, 13 pump & meas equip: ¥ 1.08 million fixed K, ¥ 1.29 million working K. Products: rubber insulated soft wire, 4 spec - 22,000 km p.a., electric wire - 5,000 km p.a. 1968 plant began -- 151,000 km soft wire cum total, 26,000 elec wire. Cum output value, ¥ 36.33 million, cum profits ¥ 4.64 mill, [?] 1.6 turnover tax ¥ 13.9 million, income tax ¥ 2.45 million, turned in part of P to ^{superior} bureau ¥ 0.65 million.
- ② Average monthly pay up from ¥ 29 (1968) ~~to~~ to ¥ 57.6 now. Welfare also expended -- free med care, full sick pay, + various subsidies, built some apts, clinic, bathhouse, nursery.
- Growth: const commenced July '66 [C.R.]. 3 phases of g. 1) completion Dec '68 2) → 1978 -- prodn devel: 3) → now -- impl 3rd plennum, proving govt doct policies → new vigorous growth. Started with 134 housewives... enthusiastic -- no formal wages -- ¥ 10-20 month ^{subsidy} -- installed the equipment (i.e. did the part of the CC.). Started with equip rented from other plants -- not very mechanised.
- 1968 ¥ 530,000 fixed K, ¥ 250,000 working K. 1 product -- soft wire. 1970 -- added elec wire. 1969 3,000 km wire P ¥ 29,000.
- 1978 → 15,000 soft 455,000 2,000 elec.
- Recruited 148 young people over the years 1969-78. ... ¥ 14,000 per worker ^{av} BVO.
- Cum 1969-78: Tax 1.184 million, 1.585 inc tax, retained P ¥ 1.0? million.
- From 1979, collectives given more autonomy. ^{July 79} Turned from a neighbourhood enterprise into a collective. ^{After} ~~representative~~ meeting prodn quotas, ^{of state} can dispose of output themselves, ^{in acc with market} quality of soft wire up (won 3rd place in nat'l contest -- also

a municipal prize in Jan 1982). Within enterprise, responsibility ... bonuses ...

each worker has clearly defined resp. ... produ. eff. up -- etc.

1980	...	19,000	} down $\therefore$ lack of raw materials.
1981	soft wire	18,000 km	
1980	elec wire	3,000	} small decline, $\therefore$ demand factors.
1981	"	3,000	
1981	total	¥3.8 million	

Profits 1979 ¥594,300 .. ~~estimated~~

80 654,200 ..

81 357,600 ..

} decline $\therefore$ market D fell. [CC cuts.] ^{electrical machinery.}
[? no price decline.]

Have to pay inc tax & contrib to bureau from this.

For these 3 years, ^{average P} 16.63% greater than 1978.

Unit cost	soft wire per 100 m	79	¥12.57	} av 13.2 vs 12.67 (in 1978)
		80	¥13.32	
		81	¥13.71	

[clearly also $\therefore$ unit costs up.]
↓

Why did costs go up? 2 pay raises .. now get collective rates (higher than neighborhood wages), raw material price rises, subsidies [? 54/month].

Income tax payts ... ¥872,300 .. 1979-81 cum. vs ¥256,000 1978. .. so an increase.

Profits .. inc tax c. 55% ^[top rate], leaving 45%, .. of which 30% to superior bureau, 70% kept, of which 10% bonuses, 60% expansion, 30% welfare.

Ratio's stipulated by provincial govt doct (1979)

1979-81 .. ^{cum} expansion accumulation ¥270,000, welfare ¥127,000, bonuses ¥67,000 ^{.. av 7164/worker}

? Last looks higher than 10%? Rules have changed recently .. since 1980, bonus % up to 15, welfare down to 25%. ^{Additional} Bonus for overfulfilling quota .. av

¥355 (on top of the 164). Took on 114 workers .. net increase 70 workers.

of 114, some ~~for~~ sons and daughters, some ^{other} young people awaiting empl.

1969 .. turned in ¥29,000, now turn in ¥400-500,000 p.a.

default tax rate of 0.685

[For what?]

For nothing according to

Ms Lin -- just passed on up. They get nothing back.

②

Proc & Marketing

Materials from whom, output sold to whom? Materials mainly from state, some bought ourselves, sell output to specialized ^{can be sold on market but} ~~corpn~~ ^{share} ~~above quota~~ small (soft wire 4%).

Quota reduced 1981? No. Full quota taken up. ^{above} All refers to soft wire.

Electric wire no obligatory targets -- fend for themselves -- 30% ^{by} contracts with other enterprises, 70% find own customers -- this was where fall in D. ^{state-fixed} Electric

wire price reduced by 3% 1981. Elec wire prodn materials -- no state allocn -- get from same corpn, at a 6% higher price.

Material ^{reduction} shortage for soft wire? -- ~~only one spec~~ -- not enough cotton yarn --

state reduced allocn. ? Why didn't A to another spec? Farnell Need cotton

yarn for all specs. ? Why not buy on market, or from another co? ^{Did} ~~Reed~~..

went as far as Guizhou, had to pay ¥270/ton (transp incl) extra ..

~~went~~ state price ¥4480. ? Why didn't buy enough to fulfil output quota?

Too expensive, discovered problem too late. Did they meet full soft wire ^{prodn} quota? No. No penalty... ∴ it was the state's fault

1982-3 outlook? Improving -- D rising, supply improved.

Labour & Wages

Nightshift → collective, how big a wage increase? Per 78 average pay ^(including overtime) ¥29/m, no

Real shift is 78-80. 1979 max time? } ① bonuses; 1979 average ^{all bonuses} 50.35 per person worker per year... ¥42.6/month basic pay ^{incl} ~~incl~~ overtime

1978 } 38.50/month including overtime (and bonus), 1980 752.30. Bonuses in 1980 ..

② 156 p.a. E. Wage ^{bonus} range: bonuses together max 210 min 50. wages highest 62, 22 ^{apprentices} (excl overtime) after 2 yrs get 31.50.

Bonus for fulfilling quota paid on individual basis, or what? One form by group, one by piece of equip (3 people). (Factory works 3 shifts).

How bonus from P ^{Allocated} ~~paid~~? affected by individual performance, attendance. If absent 3 months ^(with permission), can only get 1/2 bonus. Know no bonus.

What governs amount this type bonus? No such regs last year. But this year,

③ can't exceed 30% wage bill. ? Really no limit last year? Yes, & so net profit went down.

"Overtime" = ? ^{high} days, Sundays -- also ^{includes} night-shift premium. ^(rotating) Young people don't like to do it. Old people work like.

Normal working hours = 48 hrs (incl breaks). ^{have to} true work 6.5 hrs/day.

Emp't -- free to decide hiring -- ^{have to} or take what labour bureau gives? of short of 8 workers, 2 from LF, 6 from own workers families. Sometimes have to take more than they want, but don't have surplus labour. No choice in selection of workers. No power to dismiss.

Appl appts: by bureau (^{single} industry bureau of district govt).

Party office in this enterprise? Yes.

Original source of finance: loan (sic) from state ^(Y 570,000) -- still paying it off (outstanding Y 320,000). Interest free. Any subsequent loans? ^(for fixed I) No... all subseq. I self-financed. All equip't self-owned. Any loans for w.c.? Yes -- ⁴ 1000 month i rate, Y 100,000 ^[small bus] outstanding. Not new practice.

(i.e. tax rate -- 5%.)

(Plant tour) ~~Recess~~ sponge rubber masher, and extruder. Rubber coating on ? single strand wire (soft wire). Wire braiding apparatus. Outer cotton coating weaving machinery .. several banks. Equipment came from NE. Lady manually spreading wire on drum .. relevant machine didn't work (not obvious why not). Apart from that, no obviously unemployed labour. Magnificent view of Yangtze.

24 Jul 82

JK on Iron & Steel Mill

Iron ore 100km away.

550 + thou tons pig iron (+ scrap.)

750 " steel

650 " rolled steel.

1938 founded... transported from Wuhan to escape Japs.

P. retention .. 31% after tax P. state bonds purchased (voluntarily, of course).

70% LF under 30. ~~some~~ want to gear pay to individual pr, save materials, better labour discipline. 3 shifts. Overstaffing... → 4 shifts (48 → 42 hrs, with some pay), envisaged.

Output will inc... JD. 1960s partially introduced basic oxygen process.

Below average tech standard by Chinese standards. Modernisation I plans in last couple years cut back from above.

End 78 shifted from physical targets .. one of 1st 6 exptl enterprises in Sich. Have 9 a prod mix targets -- but more flexible. ^{50/50 Ministry, province.} 3/4 obligatory, 1/4 above-quota... (only 3% free sale).

Keep 70% depr. Tradit links with customers .. but now more transparent.

Unequal P in diff lines .. some unprofitable items in quota. D for steel picked up this summer.

Life easier under old system? Yes. Can't influence price .. but try to improve quality.

Av basic w 748.3 + 413 bonus + 45 + ~~45~~ 43. Basic w has declined ∴ Δ age structure.)

Benefit from new system? Some increase for person of given age. Housing 3m²/person → 5m². Wage range (incl appr) 31 - 230 (103 highest skilled worker). Bonus must not exceed 2.8 months pay. 732/month highest bonus. ^{Bonus as} 8% earnings.

Output, cost, profit plan targets. Group bonuses.

1981 ~~an~~ P 461 million, retained 720 ... 46.1 bonuses .. 8.6 welfare .. 2.95 bonds 2.0 accum. 1982 Δ in rules.

24 July 1982

Price Seminar

(Price bureau, research, various bureaus' price people [whose signif^{now} appears very great]).

Mr Liu Shuitou (? Dir local price bureau)

Presentation on price policy & determination (would also like suggest a experience/info from us).

Recent Chongqing reforms $\approx$ rest of country. A price, A system. Large Δ 3 times in recent years (i) 1979 (ag prod, ... incl ag prices $\rightarrow$ 12.2 inc in annual p.c. inc, below

natl av⁷²⁰ $\therefore$ market ratio lower $\therefore$ is more own C [tells you something about how^{this} calc - didn't revolve own C] .. nonstaple retail) (ii) ^{during} 1980 fuel, material, ex factory prices up ..

lumber, coal, iron ore, pig iron, cement, leather .. $\uparrow$ retail prices furniture, leather shoes, etc... not hh coal. $\downarrow$ machinery, elec prod, plastic prod, electronic appliances.

Ret few retail price Δ s. (iii) 1981 Q4 .. $\uparrow$ high qual eig, alcohol, $\downarrow$ daron, hh appliances, watches, etc. [Put it all together, it's a substantial price reform].

(? Situation Chongqing) 79 80 81
RPI Δ s... Annual % 1.9 8.6 1.4 $\approx$ 12.2%, slightly above natl av (10.6) .. cost
per capita each person ¥ 3.75 .. ^{nominal} vs inc increase ¥ 15.5... (sample survey 300 hh) [annual?] in Chongqing

Reform: only gradual & poss .. interest of budget, people .. econ situation. 5 forms:

1) Plan, 2) Floating, 3) Neg A, 4) Neg B (inter-enterprise), 5) Country fair... ag & sideline prod.

$\left\{ \begin{array}{l} \text{Municipal authorities determined rules.} \\ \text{Neg prices only for minor commodities...} \end{array} \right.$

some interference to prevent excessive fluctuations... mainly ag (limitations).

Price irrationality. ^{enterprise} Direct sales to retail stores must be above state wholesale price.

Redistrib P between ind, ag, commerce.

[? incl floating]
Plan price 87.4% $\approx$ retail sales, neg 3%, free 9.6% in Chongqing.

Only a few imp prod prices require ^{or superior} provincial approval ... most municipal or below.

Many problems in course of price reform. ① Multi-tier problems -- category-switching ...

quotas underfilled (eg only 70% orange quota) (rest sold through other channels -- no prod shortfall .. prod increased) .. soln is to strengthen plan control via contracts to

guarantee quota sales... [offsetting firms?] .. contracts with low-level units. ② Subsidies .. eg

eig factories allowed to reduce profit ... or tax redns ... to prevent passing on in retail

prices. Beer & paper factories tried to absorb through inc p.v. ③ Multiple prices

confuse consumers, & some enterprises try to jack up prices ... more propaganda needed

Price reform evolves .. could/should not be rapidly Δ .

Ch's recent problems of price reform mostly due to bad 3 mgts & monopoly

Ans pitch

- On freeing up prices
- (1) Pre-lib inflation not caused by absence of price control... (wage control also imp.).
 - (2) Monopoly problem... if you free up prices... competition a powerful force (socialist countries).
 - (3) Rationalise & taxes & subsidies ^(nothing wrong) rates for categories... applied to ^{ex-factory/wholesale} prices set on cc grounds (cost, world p, sub). (too chaotic and conflicts with cc consid.).
- Actually ← is a programme for total admin price reform.
- At least urban... would it work in rural areas (cross-sales probm).

JS Shanghai pitch... incl for using prices as a mgmt ~~instrument~~ instrument.

Orange ^{problem}? Raise proc prices, and retail prices, .. not a basic good. (In answer to protest that retail prices can't be raised in a poor country like China.)

Gradually increase share for mark prices. Educate farmers about price policy... [incl that downs and ups likely]. Seasonal price fluctuations... more should be allowed.

Diff cc & pol condits EEmp, but one lesson is .. rigid & heavy handed price policies have bad cc results. .. repeated eg. .. should lower price. Fewer intermediaries the better...

cut ex-factory/retail ^{price} differentials. Multi-tier pricing to reduce proc cost .. but causes confusion. .. no scientific/objective basis for quotas.

DG Inter-enterprise prices don't seem too far out of line with equil prices... judging by our eg.s of outside-plan prodn. [This morning at the textile factory.]

Q Tell us about price reform in EEmp.

JS USSR .. no basic A. Hungary .. world prices, etc... Govt still sets prices of imp't & products... & other ^{imp't} goods [?]. Free disposition of above-quota eg prodn .. good for ag X [but gross subsidies!]. Poland ... conditions never favourable for reform... system ^{unpopular &} reform could be implemented only with bayonets[!!!]. Reform a good thing, but they waited too long, until a crisis. Polish govt wants reform.

DG Too early to ~~decide~~ tell whether H reform successful, or even sustainable.

Q ^{Int'l} If ag price & material prices raised, how adv effects on RP, living standards avoided?

JS Freeze ^{living standards} for 5 years forecast, but in fact a decline of 2-3%... caused by adv ToT effects. 1979-80 abandoned idea of retail price stability.

Q Do prices fluct with world prices?

JS From my experience in 1966 ..

Imp't to distinguish
AW 3 sorts of "fluct" in world prices ... to be dealt with in diff ways.
1) temporary.
2) general inflation. } don't let them affect domestic exchange prices.
3) permanent relative price chgs. -- eg petroleum.

Q How to reduce # intermediaries? Adverse effects on ^{planned} ~~the~~ economy?

JS Why? Cut out bureaucracy.... [yesterday's wholesaler would have supported the questioner.]

~ esp out layers for bulk orders of standard commodities.

With reform, the centralized system will be kept, anyway.

Q How many ^{layers of} intermediaries in E.Eur.?

JS Direct for major commodities, minor commodities through wholesalers.

Diff betw ex-factory & retail prices in socialist countries averages 20% -- higher than capitalist countries. (Admits this figure made up.)

Q Control of country fair prices in USSR?

JS No control in Hungary & pro-market-law Poland. USSR?? Except want to encourage prodn from private plots.

25 July 82

Prices, credit,
wages, taxes

Security
Fin & de evaln.
CIB... project selection.
Surplus labour
Loan default.
Carrots & sticks.
Prices pervasive.
Experimentat

Seminar on ^{use of} economic levers in economic reform

Ch. Ec Inst, Pl. Commiss, Finance & Trade, PBC, ABC, tax, labour, price bureaus.

Pres, Municipal People's Bank: on use of credit and i rate. 4 aspects.

1) huge increase in deposits and loans. .. end 1980²¹ deps 78.6 bill, 38% up on 1978.

Enterprise deps up 48%, urban people 110%; end 1981 loans 2.3 billion, 56% up on 1978, to enterprises up 55%, comm 53%.

2) Scope of loans expanded .. from w.c. ... equipment loans .. by end 1981 .. 252 projects .. £ 120 million .. of which 729 million repaid. By end 82, expect to get back another 739, (83) 736 million, (84) 720 mill. Projects ~~will~~ add 7600 mill GVIO p.a., 799 mill P, 776 mill tax. Very pos role in light, textile, reconvert HI. 81% loans for expansion.

3) i rates up. [we know.]

4) In making loans, priority to better managed firms, & to "help with sales".

Because ~~low~~ of value ignored, money a unit of a/c, bank mainly an a/c unit, use of loans as a lever neglected.

1982 .. ¹⁹⁰¹⁰⁸ ~~108~~ [industrial enterprises] .. "loan mgt based on circula of w.c.", floating interest rate. Contract between enterprise & bank... ^[work link] agree on "turnover rate of w.c." = w.c. / sales revenue ratio. If turnover faster, enterprise will get priority, and a lower i rate (~~at~~ 30-40% of initial rate). If slower, i up 10-20%... on excess... and this excess will not be added to cost, but deducted from enterprise funds.

Results: (1) mgt for enterprise effc increased .. ^{the} 79% enterprises practicing multikind mgt of capital, 33 of them make monthly check on sales/exp balance, every 10 days discuss how to achieve "equilibrium" in capital.

(2) more success in expanding sales, market orientation. ^{of these enterprises} Output up 18.4% in 1st 1/2 82. .. vs 13.7% for ^{Chongqing} ~~Shanghai~~ (GVIO). 71 textile and LI plants. Despite

"slack D for textile and LI prods". (???) Not slack D from ^{in general} C .. a question of producing what is ^{wanted} ~~needed~~ (eg low demand for synthetics) .. getting correct product mix. ? What about sales of these enterprises, then? Sales vol up ^[only] 9.1%. ? Implies stocks up, w.c. turnover deteriorated? Yes, but ^{because of other factors} ~~production up~~ ^{WC} turnover rate up by 2.6%.

[not impossible, $\therefore$ stocks of materials & w.i.p. could have been produced, even though stocks of finished goods up.]

(3) Stronger sense of co. effie., higher utilisation rate. $\frac{2}{3}$ (? How were the enterprises chosen, how was their relative performance the previous year? Various branches, machine, instrum., chems., -- chosen better enterprises -- textiles and LI, ^{sorts of} all enterprises. $\rightarrow$ Doesn't have #s .. the 108 ^{no. for} ~~loop~~ 4% total over in Ch.)

~~108~~ 108 enterprises disposed of stocks worth 422 million 1st 1/2 82... "87.5%" of stockpile. [??]

(4) ^{In past,} Unrealistic plan targets pushed up w.c. reqts. -- now enterprises have an incentive to negotiate to get targets revised.

Problems

(1) Better use of w.c. ^{needed} in enterprises & whole society. Problems in prodn, costs, admin. in past covered up by bank loans and working capital -- which didn't play a proper role. Now loans linked to P "rather than to w.c.", ask whether w.c. used well.

(2) Because of irrational prices, profit rates vary between branches, but i rates uniform -- a heavy burden on some sectors, and a featherweight to others. How to deal with this?

(3) Feel strongly that banks should have more autonomy, also enterprises.

Finance Bureau Presentation

To meet needs of enterprises with more autonomy, -- resp., -- better job co. o/c, 230 state enterprises in Ch in an expt. ^{various} As tax system. (a) Partial retention of profit increases (over previous year), (b) ^{partial} retention of ΣP , (c) partial retention of above-target P, (d) tax in lieu of P retention. All conditional on meeting quotas for prodn, quality, profits, etc. Retained P used for: ^(Bulk) prodn devel., ^(small) welfare, ^(small) reward. ? Fixed %ages? Prodn ~~at~~ $\geq 60\%$, welf + bonus $\leq 40\%$.

Moving in right direction... as witness:

(1) more enterprise autonomy... stronger links betw resp, prodn effie. ... etc, etc... and more incentive for increased P.

(2) improve welfare of workers through inc. prodn & profits -- better welfare funds...

Without .. So bonus as share of Σ earnings is lower than this would imply.
? with or without overtime, shift premia, etc?

average bonus 2.5-3.0 months basic wages. ? ceiling .. ? up against ceiling?

ceiling is 3 months. Labour Bureau thinks average around ^{2.5} months.

Eg ch textile bureau, 30 mills, P retention since 1979 .. substantial increases since then in everything .. ^{1980/79} output 39%, sales 30%, tax 36%, remitted P 64% ..

P & T ¹⁹⁷⁹ 20.54 $\rightarrow$ ¹⁹⁸⁰ 24.37 per 100 Y of ^{gross} ~~gross~~ ^{value} output. 1979-81, retained 435.8

million, = 15% of Σ P. Financed purchase of 186 weaving machines, 126 knitting machines, 190,000 m² housing. 1981, average bonus 4128 ^P or 2.8 months basic wages.

Still experimental .. 2 major problems:

How to work out appropriate retention ratios for diff enterprises, branches of industry. Guidance on better use of retained P, and of capital in general.

Need more studies.

[appalling lack of ^{group of} elementary scientific methodology .. random sampling, ^{experimental designs} control groups, ^{evaluations} avoiding post hoc ergo propter hoc fallacies .. even a 1 day lecture would help .. tragic existence of work and enthusiasm, with lack of some basic tools.]

Labour Bureau Presentation .. rewards and piece rate reforms.

1978 ^{began} rewards for successful fulfilment of targets. 1981 began to impl reward in acc with results... surpassing quotas for output, qual, input use, P $\rightarrow$ bonuses. ~~bonus~~ bonus range

1.6 - 2.8 months basic wages -- av 2.5. ⁽ⁱⁱ⁾ What if failure to meet quotas? less bonus. But if a bad performance, no bonus.

? But zero? Lowest bonus 1.2 months. ^(?) How many enterprises paid no bonuses? A tiny #.

^{Baseline} for meeting all targets was 2 months bonuses. Then ~~if labour by 10%, ceiling of 0.2 months basic wages~~

For every 10% down in remitted P, a 0.2 months of basic pay & in bonuses. Within these 1.2 - 2.8 limits. ? What if they reduced their

losses? Loss $\rightarrow$ no bonus. ? Even if irrational prices, heroic effort? losses due to policy ~~issues~~ problems would not count. ^(multi-factor, complex) A bargaining process? In some cases. ? So most people got a substantial bonus regardless of performance?

Yes, this has been a problem, and this is how we try to deal with it.

1) Piece rates: norm gets basic wage, above norm bonus, below norm deduction from basic wages of 10-20%.

2) Norm -- above norm portion distributed -- eg ^{collective} Ganters shops -- sustained a loss in past, now make a P. group system. No basic wage.

3) Contracts -- collective piece rate -- eg industrial plant guarantees material supply to subordinate workshops -- a norm established. Meet norm, get basic wage -- (as in (1))

4) Contracting by individuals or groups -- profit target -- surplus avail for distrib (no basic wage) -- bear resp for losses. [ie?]

5) Distrib of above-quota profit --

6) Proport distrib of gross profit -- ~~inproportion~~ ie fixed retention ratio.

7) Floating wages -- partial -- 10-20% w bill taken out and made dependent on performance in relation to norms -- with bonus for above norm perf. (similar to (1))

8) Floating wages -- complete -- service corps, temporarily employed people. (similar to 2.)

Problems

1) ~~Unhappy~~ balance betw I & C, not yet set by state.

2) Pay ratios not directly linked to performance of workers or enterprises [even after reform].

3) How to evaluate performance of workers - mgt for prom purposes.

4) Too rigid control over entire wage system -- excessively centralised -- no local discretion [just as well, when you see how they've been abusing bonuses].

5) Shunned to wage legislation.

6) Job titles ^{do} ~~aren't~~ ^{correspond with} wage levels -- ^{wage} rigidity since 1958.

AW 1) Price is a pervasive background problem -- lying behind many other problems.

2) Carrots & sticks -- ^{both} essential to an effective incentives/punish system.

Common prob in all socialist countries is no sticks, either in principle, or in practice. Like trying to eat with 1 chopstick -- you can spear the occasional dumpling, but strictly limits your ability to eat. Capitalist countries too have given up the stick to some degree -- with bad econ results, though has made

Really has been least reform in area of wages and labour.

these countries less nasty. Not saying what China should choose, or what is or is not compatible with socialism... just that everyone concerned with ec issues should clearly understand this problem. [Problem with punishing people when "it's not their fault"... inevitable measure of injustice that one has to live with.]

JK Czech reform experience bears this [↑] out.

Problem of "weak rules", from socialist experience... causes reform not to work well -- weak = eg ambiguous, opaque rules (eg criteria for determining bonuses -- no exact formula -- fuzziness, retrospective negotiation -- has to be crystal clear in advance). weak also = frequently changing... lack of legislation doesn't help. With vague and weak rules, of course enterprises will bargain and bend... inevitable.

JS Rational credit policy essential... but don't overestimate benefits. Early use in socialist enterprises countries is with good enterprises... later comes the problem of extension to weak enterprises, with repayment problems... although all projects look wonderful on paper, in many cases lousy results... sometimes due to bad mgmt, but usually objective reasons (eg inadequate material deliveries). ^{→ ∴ (lousy planning)} 2 projects for cement, 2x supply... semifinished products an ^{even} more serious problem. ^{switch from grants to} use of credit may ^{not} prevent over-I ^{per se} -- disease of all socialist countries. So give credits, ^{but} with caution... don't treat as a panacea for all system problems.

AW A few words about our CIB work, the manual, & importance of appraisal.

Conversation with hotel staff.

Why all young? Basic answer is ~~these~~ hotel took on all 50 grads of 2-yr vocational course ^{... which is why they all speak English...} -- a few old workers left, but a large net increase in staff -- eg on this floor, now 4 staff, used to be 2.

Mgmt hierarchy -- butler (each floor), dep mgr (4), mgr.

Conversation with Zhang Xiaoguang worked in a ^{as an ordinary worker} factory before going to Beijing ^{in 1978} U (actually 2 factories, for 8 years) -- 2nd prize a record player factory. No bonuses of any kind. Just a flat 746 for a 48 hr wk (1 shift) + 87 for haircuts, clothing. Time off in lieu of ^{overtime pay.}

27 July 82

Lin Guoguang, Wu Jinglian, Geng Suning (interpreter)

WB General impressions. Δ in rural system .. no obs of grain & hh resp areas. Only group (LG Griffin in rural Yunnan, Sichuan.) resp, vegetables. $\bullet$ Above quota freedom .. pos incentive effect on prodn, develops market relns, improved urban food supply, etc .. better R-U relns. HH resp probably even more effective. ^(West-Japan) Foreigners see this as privatisation. (LG .. Soviet economists thought the same thing .. and about urban self-empt, small collectives ... a step backward.) Where devln badly managed, we're told, collective element has been much weakened .. esp in health. (LG yes, even ^{large} means of prodn, but this is rare.) Collective element necessary to successful ag in China. [But they can't sell or give away the land.] Birth planning problems. Urban system changes less impressive .. worrying $\therefore$ our unanimous view that these should reinforce agricultural changes. Cf N.E.P. .. urban sectors made more flexible and responsive to ag. ^{In China} ^{and suspicion} distrust of individual and small collective enterprises ... esp when they threaten large state orgs. District tax office had made little use of lump sum tax to encourage collectives. (LG = quasi-licence fee.) In agriculture, quota-system has ceased to be useful. Double negative effect. 1) Can't be enforced, 2) multi-tier price system .. leads to abuse, shortages / gluts. ^{Wu} ~~also~~ double-track system in ag now .. ^(prodn or average) Rapesex saga .. upper-limit on quota couldn't be enforced. So keep quotas, if at all, for major products. Abolish other quotas, implement a uniform and more flexible prices. Central govt mistakenly thinks only central quotas .. ^{also} among local quotas, all this playing around and distributing of quotas. But if you abandon quotas, you must reduce some prices. (LG .. c prices allowed only to fall, proc prices only to rise .. a serious problem .. great political sensitivity.) Learn some lessons from Poland .. postponing small price changes, accumulating in large price Δ s enforced by tanks.

LG Resp system has brought good results in rural areas, but in urban orgs large problems remain. Steps toward individ, small collectives rather limited. Inflex of price system chief obstacle to reform .. hence eager to hear your comments. Please elaborate on

price issues.

WB Controversy within our group over CBEs (saw only suburban). (a) Subcontracting... which could have been done in the large enterprises... no net contribution to output, and even reduction (transport costs). + lower quality products from good raw materials + more pollution (CBEs no anti-polln equipt). (b) Opposite view ^{crits} -- may not ~~be~~ be relevant to truly rural CBEs, big impact on rural ~~income~~ ^{and accumulation} incomes helps to develop agriculture, some non-subcontracting work even in suburbs, home-made equipment increases capital stock, skill development + training of rural popn. No evidence appears available.

LG ~~the~~ Opinions, not founded on research. Adheres to the second view... esp w/ contrib to devel of ag, $\therefore$ price system irrational, + CBEs can improve peasants livelihood, absorb ag labour surplus (esp $\therefore$ growing ag pr). Devel cannot be confined to large cities -- medium + small cities devel entangled with rural industry.

Urban labour resources abundant -- but problems of ^(skilled and unskilled) labour shortages emerging in many ~~medium and small towns~~ ^{eg in Jiangsu}, also space limitations on further industrial devel. Even tho ^(+ Lianning) haven't yet solved unempt probs in large cities. Ag labour surplus, but labour in med + small towns short -- hence necessity for CBEs.

On the ^{product} quality problem -- is a big problem, still being studied [by whom].

CBE prodn of simple machine tools -- can't produce high quality products -- for which prodn even above the country level is required. [But can't consumers choose -- what about price.] CBEs should be barred from machine-building... should stick to serving agriculture and processing ag products.

AW The contrary view on machine tools -- if there is a ^{(which I doubt, don't restrict CBEs; improve price or} problem, ^{for comment} ~~improve price or~~ circulate system. General background ^{reasons}: lack of competition, insulation of state sector from competition, ^{vested interests} [etc, etc].

LG (Silent nod and curious look.)

WB Too much weight placed on price alone as an economic lever. Plus compartmentalisation of price, wage, tax decns -- even diff product procurement prices in separate departments. Replicated in implementation of reforms.

(EL Maybe they know more than they tell.) Lack of coord between industrial and

commercial reforms. Price people stop taking notes when wages are discussed --
go back to calling the wage the price of labour.

EL Why has discussion of credit, taxes, faded away?

Wu It hasn't -- at least at theoretical level. But govt orgs trapped in old admin lines.
Enterprises have too many mothers-in-law to control them.

WB ? Prospects for ec reform in USSR?

Lq Big question. Since 1965 reform → more systematic and stricter planning. ~~weak~~
Seen in USSR as a success -- perfection of planning. ^[But look at the results] Weakness is use of economic
levers. ^{dep chief of} Asked Gosplan how plan enforced, impact of technology enforced; ^{frankly} told problem
unsolved. Basic framework hasn't changed much. ^{... 1979 "reforms" an extension of 3 system} -- reforms haven't solved problems
of poor efficiency, product quality, decelerating growth, enervating the economy.
Improvis in planning methods. ^(performance, now) eg CC ^{he} not measured in terms of amount completed,
but amount of ^{addit} commodity production (? sales) realized; gross output → gross sales →
net value added -- but enterprise can always find some way to bend the rules to
its ^{and to social disadvantage} advantage, cop with irrational price system. Didn't go to USSR to learn
how to follow Soviet model. [V.V. would make more sense.] USSR must face its
own concrete situation. [By their fruits shall ye know them -- on this criterion
Ch reform looks very successful, as compared with USSR.]
(He calls it jingji gaige -- economic reform.)

28 July 82

Wrap up meetings (in one of the outer rooms of the Forbidden City)

Mo Gan Shen people plus Profs Lin Guoguang, Wu Tianling, minus all Shanghai, Sichuan people.

WB (Synthetic presentation)

Old China hands noticed a significant improvement in living standards.

Broad not deep obs. No grain -- rural -- communes.

Attitude of those we met toward plan and market unsatisfactory -- seen as 2 separate things, acting on different planes -- plan with quotas & targets, market in sphere of above-quota activity -- not interacting. No concept of using market in implementing plan, or using plan to influence or regulate market.

Agriculture -- most important sphere of ec reform -- impressed by scope and success...

not due simply to higher proc prices. [? Timing of events doesn't support that view?] [Main systemic changes at end 1980, following 2 or 3 years good ag perf -- one of which? preceded proc price increases.] Not privatisation...

[Yes in some senses, no in others.] -- and we think this would be bad, for economic & soc. sec. reasons. Want a combination of small-group and larger collective org. Negative comment: excessive reliance on quotas... for all products

of all categories, output and acreage. Simply unenforceable. Combined with multi-tier pricing, leads to ^{uncontrollable or} undesirable phenomena, including screwing up planning. Rapeseed saga. Suggest eliminate multi-tier pricing in favour of a uniform price... and eliminate quotas except on most essential goods. And introduce downward price flexibility, esp for cash crops -- more generally, should use negative as well as positive incentives.

Non-agriculture -- but connected with ag... and should be developed around agriculture, to support it... or more generally to develop the rural economy. Eg market for ag products (may not seem a problem now), supply of producer & indust & goods for rural popn, employment for excess rural popn, new sources of income. Soviets did this satisfactorily only during NEP. More recently, Hungary did well in this regard by allowing more flexibility in and around agriculture. In China, some progress in this direction. Eg CBEs, urban SSE, direct sales of above-quota. CBE controversy in China ... & in group... but agree that any

EL's Thailand survey that showed some remarkably low percentage of farmers incomes coming from agriculture.

general suppression of CBEs would be wrong .. also ^{CBEs} not a matter for "campaigns", either for or against. ... can play important role in developing rural economy, linking R & U economies, provided pragmatically assessed and guided by economic instruments. SSEs, direct above-quota sales, ^{we} unanimously thought a good thing... but too slow... partly perhaps because of resistance from state enterprises, which feel very comfortable in their monopolistic positions (monopoly socialism), and fear competition, however weak. ... eg wholesaler saga... didn't ask himself why he was losing out, but merely complained about disorder .. but asked for more price flexibility. ... so maybe the answer lies in putting state enterprises in a better position to fight back.

State / large collective sector : old China hands believe changes smallest in this sector.

Some positive features .. eg P retention, taxes [logically not ~~an~~ any difference].

Bonuses & P retention not well established .. eg retroactive "adjustments".

↳ weakly linked to performance... ^{Automatic,} uniform, state, not a single reduction... carrots and sticks again (asymmetric incentives). → leads to many worries... incl linkage with Ps contaminated by irrational prices, inflationary pressure, esp where targets, producer goods allocations highly aggregative [??], because leaves enterprise with much room for manipulation... could lead to erosion of honesty in favour of cheating. Use ^{some} bonus money in different way .. esp promotion, or mgrl discretion... esp in large enterprises where little individual control of output pace... more differentiation .. esp make mgrl pay much more dependent on bonuses. Performance evaln in ^{terms} quantity terms still very much alive, and probably still main basis for mgrl assessment.

Labour surplus & efficiency. No signs of open unemployed or idle people in factories.

.. some surplus labour in training schemes, sometimes mgrs ^{said they} could release ²⁰⁻ 25% workers. Complete job security... no fear of losing job as workforce motivator... may be socially desirable, but economically disadvantageous. [If they worked harder, the labour surplus would be even greater.] → referring not so much to

ZCY says Inst people now get bonuses!

Break

saving labour, as materials & equipt. More mgt discretion in emp decs desirable.

Bigger wage differentials would also help.

Social role of enterprises point... incl job inheritance ^{incredibly unjust..} [no recruitment on merit.] Transfer ss. to the state... if not, enterprises will never act as strictly economic units

[?? plenty of Western enterprises pay pensions, a function quite economically.]

Prices .. wide awareness of problems... even to the point of exaggeration.

JS thinks Ch price system much more flexible in practice than in theory... many

"fixed" prices actually ^[... I would say set unilaterally by producers] negotiated between producers & purchasers, with indust & sometimes price bureaus as arbiters. [? comes across exaggerated] Yet % of flex still

much too low, & could be extended even without a major price reform. [Endless confusion between price reform and price system reform.] Bring commercial orgs

more into price negotiation/formation. Downward price flexibility, please... to

make ^{other} upward adjs easier. Free prices of many nonessential goods. Encourage

country fairs, abolish price controls in urban SSEs, also all group 4 commods,

broaden scope of floating in group 3, ~~sq~~ also vegetables & some other foods...

allow even hourly flucats (as in some EEnp countries). Would promote more competition

-- China has greater potential ^{for competition} than any other socialist country [USSR?...] but

requires Δ of attitude toward trade -- not an illegitimate activity [not well explained].

Shadow prices: for I projects, evaln cc performance, "savings", link macro effects with micro calcs.

Credit & tax. More enterprise autonomy means credit more imp't. Eg wage bonuses

being paid out of credits for working capital! Ditto for overinvestment tendency.

Deploy credits toward particular ends. Mobilise savings -- reduce state fin burdens --

has developed recently. [? How much more mileage? Do what?]

Tax policy: enterprise tax unions good, but done inconsistently (govt bond purchases, retroactive adjustments to remove residual P). Simplify lcc tax structure --

do away with multi-stage. wider view/appln of lump sum ^(or licence fee) rather than inc tax

for SSEs... stable for several years... used in EEnp. [Also inc tax admin more

diff.] In EEnp, inc tax on SSEs led to corruption.

Remarkable separation of price, credit, tax, wage policies / activities -- if true, dangerous & ineffic. Should also be linked with ER policy.

General.

Didn't discuss admin issues (incl central-local relns), role of Party offices (would be a big gap in EEnp, where play imp't coordinating role).

Assessment of results so far. "Experiments" without precise scope, control. Evaln hindered by complex admin structure -- eg municipal reform office not interested in local enterprises under central & provincial control... or in some cases even under district control.

Don't favour abrupt as in ec system, but ^{steady} evolution. Rather unlike EEnp -- where only successful reform (H) was a package, and individual steps too easily reversed. China could do gradual reform -- but need long-term objectives, and coordination in sequence & between different aspects... people with a broad view. Also need to strengthen empirical economic research -- not casual trips like ours... but LT observation with good methodology (could be quickly acquired). Invites comments & criticisms as input.

XMQ Many valuable ^{opinions} ~~problems~~ many of which already under serious consideration. ^{problems... coordination.}
(Hence commission ^{on} system reform... to evaluate experience, develop program.
(Quite a few vice-premiers read minutes of Mo Gan Shan.)

P.m.

[They refused to make comments, ^{or} ask questions -- insisted that we go on talking.]

DG says his thing -- [a disastrous error] ^{sounds off his half-baked views on China.} -- I can't believe his bonus data. He wants to retain quotas for suburban agricultural output to prevent zero-value-added industrialisation. Egalitarianism not a problem for incentives in China, at least as far as manual workers are concerned, because spread of manual wages in China no less than in most other countries. Applic of enterprise

[It's more the way he says it than what he says that is offensive.]

income tax is quantitatively insignificant. Doesn't like economic lessons for plan implementation -- at least selective credit policy elsewhere has been either ineffective ~~rather~~ or harmful... partly because its implementation requires the drawing of lines even more rigid, ^{less flexible} than ⁱⁿ direct orders regarding production.

gradual reform danger is incoherence and inconsistency between different areas. Then [to my absolute fury] told them no hope for economic reform, as witness Wisconsin poverty study.

JK Amplify points made by WB. Pr, wages, double linkage. Potential as well as problems of bonuses. ~~some~~ wouldn't base conclusions on one enterprise. Rules for dividing up retained P... partly problems in determination of P. Experiments need ~~more rigorous~~ methodology... uniform accounting system. Legislative framework -- rules -- needed. Lack of clarity leads to bad results. Welfare payments too large a share of total remuneration. ∴ hard to link to performance (inherently egalitarian).

mobility -- danger of excess R-U migration... but how about some limited mobility, incl between enterprises. Skill / training. ... "to each according to his ability" should be the new slogan. How about introducing regular holidays to absorb surplus labour.

JS ^{General:} Saw no typical units -- everything above-average, with 5 diplomas and 2 standards.

^{You surely} Don't want our suggestions on the best units in China. So don't be angry if our suggestions seem irrelevant. Radical reform in 2-3 yrs not possible given what we saw in bureaus, institutions -- so either do nothing or proceed gradually.

Prices: don't want to ~~reintroduce~~ ^{the} price system, but found more pos aspects and more optimistic than when I started. Inflation fears -- 35 years ago -- this business of ^{state} guaranteeing fixed retail prices for everything absurd... the orange story -- if you can't raise the price of oranges, what can you do.

Deq's generalisations rash... ~~not~~ on basis of couple of suburban communes -- & even they had surplus ^{as} labour.

State responsible for everything!! ^(China) highest successful gradual price reform.

At best a necessary evil, at worst parasitic

- Price system reform (vs price reform)
- 1) Monopoly and negotiated prices - functional
 - 2) Failure to understand significance of competition... or promote -- corporations -- rationalisation -- restriction
- [Confusion between direct and indirect taxes] (eg $VA + P = 1.6C$).
- 3) Negative attitude to commerce -- incl shutting them out of pricing planning. (necessary evil).
 - 4) What exactly is surplus labour? -- parasitic
- Ch evaluators

PK Sci research is about how things are -- not how they should be. Ch evaluators doesn't understand this. Most people we met had poor understanding of economics, poor training -- not just quantitative skills. Need a lot more economic education, ^{which} can't be confined to Marxist ideology -- many ec problems (prices, incentives, etc) can only be understood in some other frame of reference.

Official opinion on function of market -- what is it? Secondary role may be better than nothing, but inadequate... subverts both planning process and incentive system. Rigid separation between quota & above quota assumes no problem for central planner to determine fundamental needs of economy. Market not just an instrument for ^{inessential products} ~~consumption~~ and activities -- a marginal luxury. Restricted markets work in a peculiar and often inefficient way.

EL Don't divorce system reform and development priorities. System reform means to some end. Labour surplus: current situation is not labour-surplus so much as capital-shortage, skill-shortage, technology shortage. Not just a play on words -- $\therefore$ correct soln doesn't lie simply in creating more jobs. What is more crucial is to economise on capital & skills... proper project evaln... role of banks (not now evolving in a direction conducive to offic I). eg bank P retention -- in some cases ask enterprises not to repay quickly, or to make unnecessary borrowing -- no rigorous analysis of proposed projects. Banks as an agent of decent I decision-making. DFIs elsewhere... incl know more about details than a central planner could. Shadow prices.

Price Granichs, credit, tax, ER policies have been used very effectively in some successful LDCs.

If you want to economise on skills, have to allow more mobility.

Anti Df on CBEs. Dynamic advantages. Frugality with capital. In all LDCs growth of price ag inc insuffic, esp ⁱⁿ land & ^{countries} scarce -- diversific of current activities crucial. Learning effect.

If you have problems with CBEs, cure their root cause not the symptoms. Do proper

empirical investigation... Scientific monitoring.

29 July 82 -- continued.

ZCY Why can't market ^(i.e. elimination of buyers and sellers markets) equilibrium be achieved by a better plan?

[In theory, possible ... but practical problems
... overinvestment tendency
... loss in terms of efficiency, quality.
(incentives, D & S, and dynamic
"wrong" prices, in indep. info on both.)]

JS Misunderstanding -- we're all in favour of expanding prodn, but can't do it through plan... tapping enterprise potential. No ^{socialist} country has ever achieved 100% S, D equil... even for a single product. And with millions of products! And quality problems. Energy -- shortages -- price problems... sellers rule.

PK Existence of ^{direct} sellers market is caused by plan... seller is merely obeying plan. Disruption of link between D & S... replacement by intermediation of plan. Establishing equil not a matter of varying prodn a few % either way -- but of re-establishing primacy of people's D as controller of prodn.

Junior AND Tell us more about how ~~experiments~~ better rural-urban relationships should be established.

WB Ag reform not the only crucial reform -- it's just that reform in other sectors should be designed with an eye to conseques for ag. Market for ag prods. Stimulating ag prodn. Material incentives in ag require increased S of indust & goods. Supply of producer goods. Make other sectors ~~more~~ more flexible -- better info flow between rural and other sectors... in other socialist economies hasn't happened -- neglect of market ... downgrading of commerce (cf. Wood). Multiple income sources for peasants (cf. Lin).

Q Competition -- good for various things, but in a planned economy should be restrained somewhat. Where to draw demarcation line, & how to restrain... admin measures, ec levers? [In every economy restrained somewhat.
[Line a long way from present sit' / will know when you get there -- no general concrete answer.
[Desirable direction of Δ obvious) economic levers more harmonious.]
-- so far in the distance that it can't be seen now.]

WB ~~Ch~~ Ch not suffering from excessive comp.

[Can't have competition without markets.] AW As ... + shift burden of proof -- now competition is presumed guilty until proven innocent -- should be reversed. Also don't assume disorder is per se bad.

DG Competition impt also in planned ^{sector of} economy -- esp -- such diversity of detailed products -- impossible to plan successfully.

JS Don't drown competition in an effort to promote it.

PK competition in planned economy esp in field of I... only a few of the many projects proposed should be accepted -- practice in capitalist economies -- recently adopted in H. Better than the usual monopolistic distrib of I funds.

... [These questions all seem carefully orchestrated]

Liang Wensen Obligatory targets unavoidable in China for some time. Pros & cons of such targets.

Should fulfilment of oblig targets be a criterion for performance evaln.

JK weakness of oblig. targets ... esp where shortages ... also enterprises minimise cost and effort of meeting targets ... esp w.r.t. input targets. Planners have to rely on info supplied by enterprises ... ~~they~~ who systematically distort the info to their advantage.

[Incentive compatibility.] Advising targets not much different. Markets ~~don't~~ don't have this weakness.

DG ^{as practiced in China} Oblig targets $\Rightarrow$ ^{for commands} detailed, or ^{bro} aggregative (sum of both detailed obligatory and detailed indicative targets). Indicative targets of little interest to enterprises, though important to local and central planners (eg affect input allocations). Only the ^{specific (and ag)} obligatory targets actually affect output of specific goods (and ag). So should you eliminate indicative targets? No, ^{not} if they are useful in material allocn ... but this is an open question ^{of fact} ... maybe the planners make ^{such} bad guesses as to product mix, that indicative targets actually mislead in material allocn.

Nothing to do with indicative planning in the ~~French~~ French sense ... guesses -- projections of broad output eggs 5 years hence -- to help with I decisions of individual firms.

WB Non-binding targets a contradiction in terms. French system can't be generalised ...

ec forecasting basis not only for enterprise decns, also for govt policy.

Whether or not you should use oblig targets in eval perf depds on exactly how oblig targets defined ... socialism $\neq$ oblig targets .. indeed may be a conflict of principle.

Liao Jili EEnt countries have never been able to handle plan/market, oblig/indic targets relns.

discussion of these problems leads nowhere. Can't run an economy with same methods used to run an enterprise ... with hundreds and thousands of targets -- not possible .. USSR has 20 million targets ^{down to enterprise level} obvious problems. Issue ^{and question} is thus how should the state manage the economy? (USSR should use more targets if they are serious about their methods!) Maybe French experience is of some relevance.

Also depends on what you want to achieve.

Stages of development -- don't generalise from past -- planning a good way of accelerating initial stages of industrialisation -- some methods not approp at all stages.

Successes of IFYP.

WB Not through obligatory targets. One answer is do nothing -- leave everything to the market. State must exercise leadership, use economic levers. Novozhilov -- obligatory targets essential to successful control. Leadership = general goals ^{direction} for economy... enforced by indirect controls. Can't comprehensively answer this question.

JS EEmp dilemma. Ending labour surplus -- solution... don't revert to capitalism. Control needed in some sectors: energy, transp & comms, FT (though not monopolised). Decentral should start with LI... end monopoly of material allocn. Food sector -- more questionable.

AW -- as above... up to cautious about drawing lessons from IFYP period... Ch. economy has changed.

Prof. Wu Jing: Even in IFYP period, aware of weaknesses of overcentralisation -- pointed out by Chen Yun [obs sees me as a diehard capitalist.]

JK Ch ^③ basic wage system similar to EEmp. ^④ Subsidies. Bonuses -- ^③ some from costs, ^④ some from profits?

Lunan et al. Ans: In state enterprises, either ^③ or ^④ but not both. [collective enterprises clearly have both] (with substantial disagreement) (didn't really know what he was talking about.) kept bonuses for eg saving energy.

In old system, bonuses all come out of costs: with P retention, most now come out of P -- but still some come out of costs.

JK Percentages of enterprises in these categories? [we know a certain amount.]

WB USSR enterprises have obligatory wage targets -- do Chinese enterprises?

LJL Yes -- supply to 8 targets used for performance evaln. -- have basic w and w fund (incl suppl w) target.

[ZCY says discreetly to me that everyone in her institute gets a uniform ¥7 per month bonus -- also in all other admin orgs, though not at uniform rate -- eg her daughter gets 8, her husband in MinElec -- engineer -- 9; and that this has been so for 2 years. She also (this month) got ¥12 for books and periodicals, ¥9 for cold drinks -- in aggregate, these 3 kinds of bonuses > 20% of her basic pay -- not included in wage bill. ^(but paid from other funds)

(Afternoon, continued)

DG H. Educ insts attached to enterprises. Do they exist? How do courses differ from normal educ HE educ? Similar to western training courses in enterprises -- training rather specific. (eg Dongfang TV factory in Beijing) runs a course in electronics. What happened to enrollment during CR, & since? but all adult skilled workers students -- similar to a normal engin. master course.

Prof. Wu: Differ from insts estab during C.R. for political indoctrination. (didn't answer the last question.)

PK On some broader social questions -- and their role to ec reform. If market is "chaotic", & state owns all pr resources (incl manpower), & state a monopoly voice of social opinion, then ^{obligatory} planning is logical and unavoidable. ^{But} if market is normal meeting place of S & D, & state not a monopoly voice, then decentralised system is natural for socialism. W theories of democ socialism based on some simple ideas: $\emptyset$ state and society are not the same thing -- state only part of society & cannot act for all particular interests, only for the general interest. Particular interests must express and defend themselves -- need a balance between general & particular interests -- otherwise not a democracy. In discussing ec reform, ~~whether~~ like it or not, you're discussing evolution of whole social system.

Mr Fang Chun AND

1) Ch similar ^{you say} both to EEurp, other LDCs -- does this make reform easier or more difficult, and how does it affect choice of ec system?

2) Expanded ^(autonomy) power of enterprises in I decisions. ^{controversy} Eg Yugoslavia results not good. H expts. What do you think?

3) General view abroad that package better than piecemeal reform. Why does WB advocate piecemeal reform -- why do you think risk of reversal less? [USSR !!]

EL -- on 1), riskier in China -- esp have to be careful that poorest groups don't get any poorer. Reports, 80% popn rural... ^{$\therefore$ China less developed.} ^{probably} requires more central direction of I (esp infrastr, energy)... but don't overdo it.

Liao In Dec & LDCs, decentralisation always an issue -- question is what to decentralise.

DG Enterprise control of I a late stage reform -- should probably not be on the agenda for the 1980s... except small I in minor modif, modernisation & expansion... as clearly already exists in China. Reasons given in H section of his paper.

WB Packages better, but require special conditions. Reform in blocks? -- ^{deeply ingrained trade of ec mgt.} set of interconnected elements. Package not on the cards -- EL reason, and upheavals of past 25 yrs. Core of present block is ag reforms.

Young AND again: (supplemented by Liao): 1) What has USSR done in reform? 2) Goals of reform....

2 Diversification? doesn't apply to infrastr, location of whole new enterprises, etc.

Hand and arm freedom of movement

esp for most (minors) I decisions.

Surviving the market by or adapting to input crisis & cutting costs.

Why are you giving enterprises more autonomy?

(I disagree) I think -- or it's just a matter of timing?

[No questions on prices!]

what system would best economise on capital & skilled labour? 3) How to handle runs between sectors & regions? 4) what are Hungarian "holding corps"?

DG USSR: non-agric sector covered in his paper + shift from gross output $\rightarrow$ VA measure of prodn. -- effects won't be known for 5-10 years [very hard to evaluate] ^{VA} $\therefore$ irrational prices); in agr, reform has gone further -- raised proc prices, & decr R-U inc gap [is this reform?]. ... but only in 1950s & 1960s. In 70s & early 80s, rural welfare system improved. Ease of mobility ^{of a paper} to & or other R areas greatly increased (legally) since 1979... but 70% of pre 1979 mobility had been illegal. Scope of formal quotas reduced, but real effect unclear.

JS (add something).

WB Confusion between changes in policy and systemic reforms. Eg inc I in ag not a systemic reform.

How to economise on K & skilled labour -- goals? Already much covered. On saving

skilled labour: ① make it more expensive for enterprises (if enterprises to be P-sensitive) -- without personal inc or payroll taxes, ^[a beautiful idea] has a bad effect on ID.

Socialist dogma that you shouldn't have personal tax. ② more mobility.

On saving capital, not a great believer ^(w/ capital charges) in interest rates, but may have some result... ~~particularly~~ ^{much more} impact is I project appraisal -- & tighten credit policies.

On saving raw materials -- Δ prices crucial. JS thinks a lot of room for raw material price increases without impact on "ultimate" prices $\therefore$ processing stages v. profitable.

On question 3), ~~I~~ don't know -- in China.

(Break.)

Lin Zhuofu on Prices

In brief. 2 aspects (1) make pricing system more "rational" (differing views) $\rightarrow$ research should include ^{(a) diff price stages for some product} $\left[\begin{array}{l} \text{proc price} \\ \text{wholesale} \\ \text{retail prices} \end{array} \right]$ (b) relative prices of diff products. 2 sets of problems. Need to stop profit margins varying too much from one product to another -- tax away excess P. Impact of I/c ratio on pricing

Recall the Gov
Shan discussion
on this point.

problem. Also price-wage reln problems. Also PF problems.

(2) Change price mgmt system [AW's distinction.] (noted). Need for a increasingly realised - though controversy. General agmt on: irrational prices bad ^{general} for reform, i.e. accounting, i.e. effci; control too rigid -- stifled economy; existing negotiations over "state-fixed" price levels multi-layered and very complicated... usually recs for adjs made by producers and purchasers, ^{then} ~~negs~~ ^{negs} with relevant price agencies -- if imp't, central govt involved. Hence scope of "negotiated" prices in practice ^{is} much wider than on paper, & has been so for many years. But not a good or quick process for making rational price adjs -- not easy to establish buyer-seller consensus. Goals of price system adj: ^{prices} as rational as possible, as soon as possible, but step-by-step. Unified price mgmt system with greater degree of flexibility. Unified ^(or state-fixed) prices only for essential goods -- eventually... but even these should not remain fixed for ever... use as economic lever.

For mgmt goods in general, ^{intend to have} floating prices -- downward for products with high P margins - good output expansion potential; upward and downward for goods with many varieties; upwards for prodn in short supply, non-essentials.

For minor items, now negotiated between producers & commercial depts, want to switch to free market (eg. toothpaste).

Price adjustments: retail prices the toughest -- low prices can't be raised, high prices can't be lowered. In 1979, thought we would ~~make~~ make prices of means of prodn more rational -- start with adjs in HI -- then move to adj retail prices of C goods. But not implemented as envisaged -- price freeze was imposed. In July 1981, State Council established Price Res Centre to study ^{and} draft proposals for price adj -- Ma Hong, Xiang and myself in charge -- now making compreh investg -- of the following prices: proc pr of main ag prods, output prices of main indust prods, ~~&~~ retail prices of ag, indust C prices, transport tariffs, construction prices for projects, urban public utility prices. [Pretty all-encompassing.] Financial costs and prodn cost of 10,000

indust enterprises under study (also raw material c) -- ranging from large to small enterprises -- } output value = 70% national total industrial output, includes > 300 branches of industry. } will try to calc "theoretical prices" of 800-1000 products (essential products)... theoretical = "ideal" à la Konrovia. will point general direction for reform... basis for setting prices in general. In setting actual prices will need to take a/c of other factors, eg S/D balance.

? How these prices calc? collected data, now sorting out, wondering what to do for next step... much internal controversy over price formation -- intend to produce several draft proposals, repres of all schools of thought (eg P/K , P/w rates, etc). (Have a computer, mathematical models.) To be discussed by theoreticians + practitioners -- to see which proposals get maximum approval -- weed down to 2 or 3 also to be submitted to State Council... by March 1983.

Dual prices within/outside plan -- this problem will be resolved -- $\therefore$ prices will be made rational, dual pricing will not be needed. Also ^{shh} ~~has~~ allow a planned purchases will be needed.

One school advocates ~~the~~ setting prices to achieve optimal resource allocn -- shadow prices à la Konrovia. For ^[? natural] resources in plentiful supply, will calc cost on basis of Δ (marginal) costs and average P ; scarce resources priced higher to achieve D/S equil. For mfd goods, prodn cost + average P .

In drafting proposals, tax and profit retention will also be taken into a/c. Comprehensive. Price reform, like all reform, must be done step-by-step.

In summary, preps are being made.

esp Lu, Duen

No wonder they were so interested in my paper, and asked the price questions they did.

No world prices
But where's the margin?

Probably my suggestions to Bros for the content of his
Synthetic presentation at the wrap-up meeting on 28 July
A.W. 9 March 2022

Introductory

- 1) Many intelligent, dedicated, enthusiastic, open-minded people met.
- 2) Reform has proceeded a long way, even in prices. Some appears to have been spontaneous, beyond what was originally officially intended.
- 3) Little to add on successes and problems, which are well understood by our Chinese colleagues at all levels.
- 4) Exceedingly hard to evaluate the reforms: many trials, but few experiments (almost total lack of understanding of principle of control).
- 5) We saw no examples of household responsibility system in agriculture, and more generally agriculture did not receive nearly as much attention from us as it deserved.

General

- 6) Subject to the preceding two caveats, casual impression that reform most successful in agriculture, least successful in state organisations, with collectives in an intermediate position.
- 7) One reason for lack of success is asymmetric application of incentives (or "economic levers"): mainly carrot, with virtually no stick -- no penalising of organisations or individuals for bad performance, especially in state organisations.
- 8) Another reason (Kosta's point) is multiple, ambiguous/negotiable, and frequently changing rules.
- 9) Prices, wages and taxes seem to be the concerns of separate departments, which communicate with each other inadequately.

Prices

- 10) Reinforced impression that price problems lie behind many other problems, including highly variable impact of loans at interest (cripple some enterprises, a featherweight to others), difficulty of choosing appropriate profit retention ratios, appropriate usage of retained profits.
- 11) Large proportion of Chinese price experts seem to believe administrative control

of prices is a necessary and sufficient condition for avoiding inflation, constant reference to pre-1949 experience. Failure to perceive that most of problems of price reform in past 3 years due to (a) excess aggregate demand, (b) extremely monopolistic character of much of China's nonagricultural economy, which gives the seller an undue advantage in "negotiating" prices.

12) Even less understanding of causes of excess aggregate demand, which are always discussed in terms of budget balance ^{and stock of bank notes,} with neglect of such things as systemic causes of overinvestment, and credit creation through the banking system (the latter especially worrying since much more use is being made of credit in reform).

13) Chinese administrative price control system, unless absolute rigidity of all prices is maintained, does not seem a very effective device for restraining inflation: Outside agriculture, most prices are de facto determined by producers, with the price bureau an understaffed and underinformed rubber-stamping device. Retailers and wholesalers, who might act as a counterweight, seem almost entirely cut out of the price determination process. -- most would apparently welcome more influence in pricing.

14) Much more could be done to promote competition -- eg let state enterprises diversify into lines of production outside the scope of their sectoral ministry or bureau, which now seems difficult; and let small collectives enter all sectors with no restrictions on price cutting. Stop amalgamating enterprises producing the same goods into corporations.

15) In agriculture, essential to ^{be able to make some} downward as well as upward adjustment of procurement prices. (The rapeseed saga.)

16) Also in agriculture, multi-tier pricing looks increasingly unworkable, because of illicit transfers between price categories, which a stricter system of contracts

will probably do little to alleviate. Best solution: probably to establish a uniform high price, but to offset with higher agricultural taxes (on the current, quasi-lump-sum, model).

- 17) As regards retail food prices, some increases ultimately unavoidable, in both nonstaple and staple foods (but subsidies could be retained -- see below). Should not be 100% compensated by wage rises, which would nullify any favourable impact on the budget. Instead, give selective compensation in the form of food stamps or their equivalent to ^(urban) households with low per capita incomes.

Taxes (and Subsidies)

- 18) Present system of indirect (turnover) taxation and subsidies chaotic. Pattern of tax rates has no obvious logic, interchangeability of tax and profits very confusing, cascading makes it impossible to judge the effective fiscal burden on ^{particular} final commodities, and subsidies emerge as residuals rather than determinants. Rationalisation could involve: ^(making) taxes the prime instrument of revenue-raising and social objectives in price formation (i.e. moving toward uniform and fairly low profit rates in all sectors); eliminating taxes on intermediate (but probably not capital) goods; dividing consumer goods into a small number of categories on a necessity-luxury continuum, and setting a single tax or subsidy rate in each category (base the gross-of-tax/subsidy price on economic or efficiency considerations).
- 19) Income/profits tax system better designed -- but distinction between profit and value-added taxation not well understood.

Wages and Employment

- 20) Bonuses of various sorts now account for about 20% of total wages, versus zero before 1978. Little evidence of alleged favourable effects on productivity, which is unsurprising because in general appear to have

been handed out indiscriminately. Perhaps removal of bonuses of poor performers could now be used as a stick.

22) What ^{exactly} is meant by surplus labour, and where is it to be found? I didn't see any significant amount of idle labour, either in urban organisations or in the countryside, and no organisation I met admitted to having any surplus labour.

21) Managerial pay is no more closely related to profit than the pay of workers in the enterprise kitchens -- all workers get an equal share of retained profit, regardless of their ability to influence the level of profit. This is very curious.

Miscellaneous

23) We often heard the accusation that CB enterprises were wasting raw materials (such as tobacco) that could have been used more efficiently in large state enterprises. No evidence was presented. In some cases, the consequent suppression of CB enterprises may simply reinforce the monopoly position of producers in the state sector, to the detriment of economic efficiency.

24) Existence of the market was making it impossible for a ^{large} wholesaler of daily necessities to fulfil his plan. Factories sold their best goods on the market, leaving the wholesaler with the second-rate stuff; entry of competitors into the wholesale trade prevented him from meeting his sales targets; and newly-introduced interest on working capital had cut his profits. This was the only organisation we met which admitted to having been hurt by system reform; but even it wanted more discretion in pricing.

25) Free commerce, ^{even speculation can be} arbitrage, brokerage, socially useful, not parasitic. Profits from trade no less legitimate than profits from production.

AW 9 March 2022

Wrap-up points -- springing from field observations

[points to be included in
synthetic presentation
Suggestions to Brus]

✓ Already a lot of reform -- incl in prices -- some spontaneous, beyond official rules.

Specific 7 ✓ Wage fund bonuses for all enterprises? ^{retention and profit-} Profit sharing bonuses in more than the 6600 exptl enterprises -- collectives, for example, obviously, but other state enterprises? All want a piece of the action?

Exact rules for the 2 types?

✓ Bonuses blown to little effect so far ^{no evidence of their labour pr...} but turn to good advantage as a negative incentive? ^{except in eg. -- crude labour pr up} ^{enthusiasm for more money} ^{a bit diff. mediated (3:1) thing.}

✓ Exactly what is meant by surplus labour -- various possible defns, with diff signif & implies -- in the literal sense we didn't see much... ^{many} ^(electric mtr, motor mtr) most enterprises ^{denied having any} ^{but had some.}

✓ Little to add -- problems well understood in China.

✓ Trials vs experiments -- ^{to test feasibility -- esp admin} almost none of latter -- ^{to evaluate optimality.} principle of control not understood.

✓ Machine Bldg. factory -- ^{freedom} ~~varied~~ varied with age 1... though working to full cap.

✓ Price control anyway ^{very} indirect... pretty clear that producers ^{are setting} ^{and retail} price if anyone does.

✓ Prices, taxes, wages separate departments.

When labour surplus could be employed on building maintenance.

* Level of economic training at grass-roots very weak -- a more Marxist theory want do than any good. But by E&S standards not too doctrinally handicapped.

✓ So little retained P going to mgrs.

A Why hh resp system → more children if land alien more sensitive... ^{many women badly off.} ^{esp w/ whitened distrib goods.} ^{esp w/ whitened distrib goods.} ^{vs competition in daily necessities wholesaling.}

✓ Restriction of competition in SS sector... competition itself a better regulator.

✓ Lot of general statements about benefits -- little hard evidence.

Big Δ in appearances... of cosmetics sales increase... people happy... avoid upheavals?

✓ Retailers, wholesalers ^{largely} out of price formation -- not well tuned in, though eg daily necessities wholesaler wanted more flex.

✓ Think pre-1949 inflation caused by an absence of price controls -- ditto 1980 -- when more emp causes were bad & mgt. monopoly.

✓ D mgt -- lack of understanding of credit creation & banking system -- excessive faith in credits per se. Also need to curb I -- over I disease of socialist econ?

✓ Pattern of taxes & subsidies ^{not per se bad -- but fix rates -- not prices.} charistic, also p rates -- simply introducing order would have merit -- eg categorisation. diff commodity tax rates could solve excess P problem

Also an ethical problem.
In a socialist society, don't give
strong incentives for cheating.

in particular sectors (though not within sectors)... separate social ^{incl revenue} from ec
considers in price formation -- former with taxes ^{incl revenue}, latter with ec criteria (cost,
S.D., world price).

Ag price -- eg rapeseed -- tendency to think must always be upward -- propaganda need.

Multi-tier pricing in ag works increasingly ^{admit} ^{low contract} ^{work state} ^{problem} ^{unworkable} ^{eliminate} ^(upgrade) and raise ag taxes ^(proj land)
-- marginal incentives problem...
-- create effect (as with small gain to farmers) -- taxes clearly have been raised in some places (Jintong)
a better option... though not perfect... ? in stages -- experimentally. Raise retail food
prices and give food stamps ^{or equivalent free rations} to households with p.c. inc < x.

didn't see rural hh ~~the~~ resp system -- very basic.

Collective enterprises varied widely in prosperity -- some wanted to become state, others not.

Suburban communes -- residents essentially now urban.

no evidence of any ^{group or work} ^{unit} ^{being} punished for bad performance.

error -- still -- reluctance to use ^{incentive} ^{stick} -- again except in ag (to some degree -- but prices not
allowed to fall)... but ^{incentive} ^{stick} collective, private inc varies.

hereditarianism.

More generally, reform more success in ag than nonag -- esp state not orgs. But ^{ag > rural ind > urban} ^{collective ind > state}

perhaps if we ~~had~~ had seen more of ag we'd be more aware of problems.

Pros & cons of CBEs -- material abuse problem? -- or is it just protectionism of state

enterprises. Subcontracting -- small scale ^{around large units} ^{chose} in all other cases. Method of state enterprise
unstable, especially if surplus labor.

Even if state enterprises must survive as orgs for social reasons -- their activation can
change... ^{a trend} ^{difficult} ^{diversification} ^{thinning control} ^{hampers} ^{good for competition}

High calibre of people who met -- impressive in intelligence, dedication, enthusiasm, open-mindedness.

daily necessities wholesaler had ^{from reform} ^{not planned off} ^{with poor quality stuff} ^{surplus of urban shops} ^{... broke} ^{to fight back?}
to fulfill his plan... only person to admit this... but even he wanted more price flex.

Diff to quantify anything -- incl volume of goods in various categories of price transactions/prices.

Are sewing machines and watches, thermoses & pencils really such vital goods -- basic
food & housing, maybe.

Plastic shoes high price & P → excess prodn.

Inc tax base pretty sensible... but confusion with VAT -- difference not clearly understood

-- need for reform of inc turnover/VAT tax, and also for P tax.

And clearly
problem also in
industry --
grasses avoided.

Problem of all too
small. Eating
with 1 chopstick.

Rough junkies
at both ends
inevitable.

how can you
punish him?

JK's excellent point about rules ^{multiple} ambiguous, negotiable, and ever-changing.

✓ Price system as of past 3 yrs
Add up ^{up} quite a subtle price reform.

P Multiple retail prices not a serious problem if flex allowed -- consumers not stupid.

✓ Price behind many problems -- eg uniform is a widely varying P/K means uneven impact of cost, diff of setting retention ratios, good use of retained P.

Bank autonomy.

I appreciate weaknesses.

No advice? Description -- suggestions?

Price flexibility

~~Price flexibility~~

Agenda -- by topic -- free-for-all?

Not enough on prices, not specific enough.

Notes on our report -- general.

- ✓① Negative lessons if anything more imp't than positive ones.
- ✓② What sort of society do they want as an ultimate goal ~ i.e. what is the objective fun --
∴ with diff obj'ives, diff system approp (also with diff constraints)
- ✓③ If they are going to translate our papers, no point in reproducing their content in our reports.
- ✓④ Say what is good about reforms so far -- what should be continued.
- ✓⑤ Look at prices, wages, taxes together.
- ⑥ Spell out the linkages between diff aspects of reform more fully. Diagram?
(as linking at least perceptions)
- ✓⑦ Don't ignore rural system issues -- of crucial importance, but easy to sweep aside -- partly because untidy, and don't fit into classic discussion of system reform, but also because we spend most of our time in urban areas.
- ✓⑧ I told JS to write a self-contained piece on price reform in China in light of E&P experience, culminating in (say) 10 'don'ts' and 2 'do's'. Also to add an annex on non-price issues, if he has particular views. (And to send us a copy.)
- ✓⑨ Will be such diversity of material and views that only way to get a single report would be to write one from scratch, having studied individual submissions. But perhaps we want to present a diversity of views. In any case, I don't think it will be possible to assign individuals to write particular sections of an integrated report.
- ✓⑩ We really must endorse and support the reforms already made -- of great "political" significance to do this (but don't be too obvious).
- ✓⑪ Is our report to be (a) lessons of E&P for Ch reform or (b) our collective general miscellaneous views on Ch reform? I think the Chinese expect and want (a) -- by but my competence at least lies really in (b) (though after hearing Li et al speak, I wonder whether I have anything to add).
- ✓⑫ ~~WBS takes no one's views but his own seriously, not a good listener -- contrary views make him impatient (cf JKH) -- not fair.~~
- ⑬ Various possibilities for my contribution. I could revise my paper and add a long conclusion at the end, whose theme would be -- what are the implications of all

this for price reform in China. Also, or in addition, I could come off the fence more in individual sectors (2 not so good :- of interdependence).

And ⁽¹⁾ [subsidiary -- expendable] I could write a separate note on other aspects of reform where I have views. Alternatively, I could ⁽²⁾ fracture my "background principles" paper much as it

now is -- including improving the exposition of efficiency prices -- and write a

③ ^{self-contained} separate price on price reform in China. ^{and price system reform}
taxes.

Refill paper to include wages and

✓ Better to say "Price Reform" = (a) Price changes plus (b) price system changes. But gauge means change [32] Where does Δ in admin price formation rules fall?

can't refer to (2).

(14) Sequencing of reforms -- don't ignore

One-way channel - Confidentiality.

Work program

work program

a) contribs in nominally by 20 Aug. ... 2 wps $\swarrow$ WBs $\searrow$ ~~El~~ El

2) WB in NY in Sept - puts together draft... in time for discussion ^{by end Sept.} ~~higher level~~ ~~secretary~~ ~~in NY till January.~~

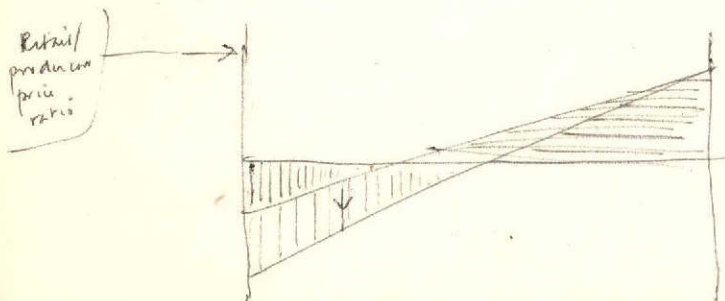
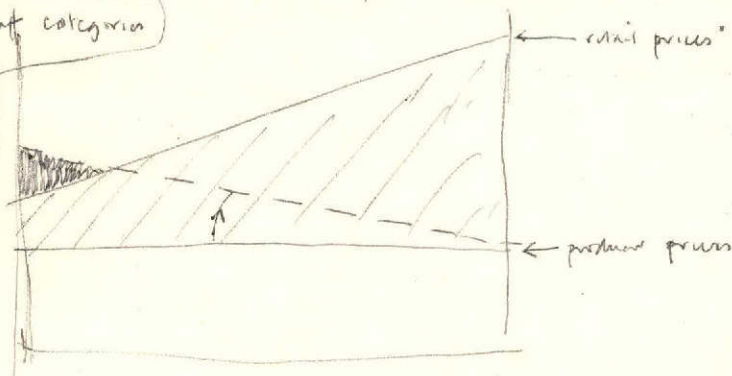
3) Send ^{off} to Chinese by end Oct. -- they get it by mid-Nov.

4) Probably no follow-up.

Ans not
needed in
1st wk or 2
of Sept

Why are subsidies a problem? If you are going to pursue
 a policy of cheap necessities & expensive luxuries, no
 problem with subsidizing necessities, provided that this is covered
 by taxes on luxuries ~ ~~But perhaps~~ which also have to cover other state
 exps. Maybe the whole scale has been excessively
 shifted or tilted? -- it's the change in relative producer
 prices that is screwed things up.

Profit tax/subsidy in diff categories
 Within each
 category, ret. retail
 prices should reflect
 ret. cost (where
 substitution elas is
 high). Producer
 prices should be
 efficient.



Professor

Professor
 Ching Chiang
 Hotel

Rules

- 1) Deposits only liab.
- 2) Credits only asset
- 3) Dep = credit.
- 4) No liabilities.
- 5) No reserve reqts.

人民賓館

RENMIN GRAND HOTEL

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电报挂号 Cable 4199

② Monopoly Bank

Deposit = 100, credit = 100.

Additional ^{cash} deposit of 10 → additional loan of 10, which is spent and returns to increase deposits by a further 10. → add loan of 10. as credit mult.

∴ Df is correct. Being a monopoly bank per se does not eliminate the credit multiplier. Only the aggregate credit ceiling limits it.

Nor does expanded use of credits, in sense of substituting them for grants, cause a problem so long as the aggregate credit ceiling is maintained.

The problem comes when you relax the aggregate credit ceiling and allow individual branches to make loans in some relation to their deposits.



中国重庆人民路175号

175 PEOPLE'S ROAD CHONGQING CHINA

3 July 1982

System Reform - Miscellaneous notes.

What if capitalism and socialism both have good and bad features, but you can't combine the good features of the 2 systems into an ideal system (largely because of the importance of the stick -- incompatible with socialist fairness -- to capitalist efficiency)? [W. capitalist countries have tried "system reform" from the capitalist end of the spectrum, ^(i.e. welfare state) + nationalisation and bailouts], E. European countries from the socialist end; but neither has found the ideal system.] What you do have is a choice -- probably a ^{continuous} spectrum of choices -- for any given society. * (Who's "you"?) Perhaps poor countries should always start off socialist, while rich countries should ultimately become capitalist. Or perhaps after a certain stage each country should be divided into 2 -- one socialist, the other capitalist -- and all inhabitants on reaching the age of 21 should be required to make an irrevocable choice.

* One can presumably also be within the opportunity frontier, and thus make progress in both directions simultaneously. ^{Wg example is a country starting with high unemployment} China may ^{now} be in this situation.

Where Friedman is ^(despite having many good points) wrong is in denying that socialism is in certain respects ^(by infant mortality in LDCs) superior to capitalism: it is in arguing for the uniform superiority of capitalism. Most ^(despite also having many good points) socialists make the same ^{sort of} error -- i.e. arguing that socialism is (or could or should be) in every respect superior to capitalism -- including faster growth, greater efficiency.

[They could employ the ^{whole} urban labour surplus on building maintenance and renovation for 20 years with no difficulty.]

JS and PK are both pessimistic about system reform, but for completely different reasons. JS believes system incapable of reform, PK that they don't have the people -- ~~either~~ in terms either of outlook or of technical economic training -- he sees all ^(Chinese) our counterparts as ^(and ill-trained) blinkered apparatchiks.

Fu Rent varies with size & quality of apt. Perhaps up to 715 -- 2 BR + LR + kitchen + toilet near

Wangfujing st. Chinese-made small m/bikes -- 7700 (Shanghai.)

Theoretically, 1% P retention as much of a motivator as 100%. But in practice, not so -- because theory ignores managerial ^(and other) effort (and time allocation) and hence the significance of ^{amount of retained} absolute profits -- who's going to slay themselves for 2 or 3 extra yuan. An argument for higher marginal retention rates (but relative to what?)

PK Chinese (urban) labour system = industrial serfdom.

Ch more open minded than USSR/EEuropeans on system reform -- less ensnared by jargon (eg freely use term "market" rather than "commodity production" circumlocution that even the Hungarians find necessary) [but technically less good -- perhaps 2 sides of same coin].

WEuropean countries could convincingly be argued to be a much better example of "market socialism" than Yugoslavia -- especially the ones (Fr, UK) with substantial public ownership. (But ^{exactly} what is public ownership? Aren't widely held j-stock cos as publicly owned as workers cooperatives? .. they are, after all, called public cos.)

How to ~~denationalise~~ denationalise? Giving assets to workers a lousy idea... no form of joint stock ownership appears feasible in China... esp $\because$ so much of the assets are land (effectively already have been given to ~~various~~ peasants).

The old ~~unsubstantiated~~ ^{inherently} proposition of Bohm-Bawerk (or was it Hayek), that public ownership is incompatible with efficient resource use, was allegedly demolished by Lange, Barone, etc. But with the wisdom of experience, it doesn't look so silly -- of Kuczynski on the latest Hungarian reforms. Maybe in practice the property of all is truly the property of no-one.

Extreme paradox that peasants want more children + get tremendous amount of ^{rural} surplus labour .. in some sense a defect of the system .. ? overcome by allowing more mobility between areas, rural wage labour, ~~these~~ strengthen financial disincentives for having children? (People wanting sons ^{those} with a problem, since its the # of girls that generates rate of popn increase. ^{The} problem ^{is that} if people are allowed to ~~have~~ go on having children until each family has one son, they'll produce a lot of daughters?)

EL says one of their biggest concerns is the surplus 1/3 of rural LF... fear of it becoming open. Tied up with the forms of ownership discussion.

[could have negative shadow wages if meant an important social goal.]

Latest commercial degree by implication permits limited private commerce .. certain commodities. ~~then~~ In reality, probably much less restrictive.

Liu Zhuofu told EL there would be no major price reform ^{in the near future}.

What do they mean by surplus labour (a) zero MP with 3 techniques a org (ie people now literally doing nothing - for which no evidence) or (b) very low MP with 3 techniques and zero MP with "superior" techniques - eg with a little mechanisation could do away with much labour. ? or also this all presumes that you're on the frontier. Maybe (a) is truly the case, but ^{social} for reasons (of equity) (ie to avoid perceived unfairness in allocation of work) they "make work" - ie set people to work on quite unnecessary tasks -- perhaps even with negative MP .. no room for this sort of behaviour in orthodox theory. Another definition would be $MP < w$.. ie a P-maxing enterprise would discharge if forced to pay this wage.

makes order of magnitude difference to amount of labour surplus, and to policy implies.

State sector an enormous sacred cow, that has to be cosseted and protected. If any part of the nonstate sector gets successful enough to threaten or compete with or tread on the toes of the state sector, it has to be restricted or suppressed. Disaster.

Mrs Struminski is quite right.

Reform of ^{general mental} attitudes essential -- eg toward competition, commerce, carrots & sticks.
Necessary and perhaps sufficient conditions for successful reform.

Maybe the whole idea of learning from EEnp is absurd, since EEnp has on the whole been so unsuccessful.

LJL How should the state manage the economy?

Prices: If natural resource prices set at world levels (= in other cases?) need special
- ^{profit} tax - (progressive rates based on P/K) to weed off rents.

Empirical observation of reform effects -- profit retention

DG correctly observes that profit comparisons between reformed and unreformed (esp state) enterprises are fouled up by the use of different accounting systems -- esp payment of bonuses out of profits in reformed enterprises and out of costs in unreformed enterprises -- ceteris paribus (including = bonuses), this would tend to inflate the ^{relative} profits of reformed enterprises, but (if wage bonuses are < 100% of retained profit) to deflate their remitted profits (hence perhaps significant Chinese loss especially at remitted P).

	Reformed enterprise	Unreformed enterprise
Pre reform -- no bonuses		
W	100	100
P	100	100
remitted P	100	100
bonus	0	0
Post-reform - equal bonuses (20% of retained P ^(fixes 10% of P in reformed case))		
W	100	102
P	100	98
remitted P	90	98
bonus	2	2

← reform looks "good".

← reform looks "bad".