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SOCIALISM + THE MARKET:
A PROBLEMATIC FORMULA
FOR MANAGEMENT AND LABOR REFORM
IN CHINA'S STATE-OWNED ENTERPRISES

A DISSERTATION SUBMITTED TO THE GRADUATE DIVISION OF THE
UNIVERSITY OF HAWAII IN PARTIAL FULFILLMENT OF THE
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By

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ABSTRACT

In 1987, at the 13th congress of the Communist Party, post-Mao leaders made public their decision to gradually let go of control over state enterprises. Their voluntary reduction of Party authority in state firms was meant to decrease the ideological volume of discussion on industrial development and to replace political decision-making in state enterprises with the impersonal "market mechanism." Their ultimate purpose was to improve the low efficiency and productivity of state enterprises.

This effort to depoliticize and decentralize decision-making and management of the public industrial sector has, however, proved ineffective. Nearly ten years after the Party's 13th congress, state firms have yet to be transformed into corporations that are responsible for their own profits and losses. Reform policies and procedures have also failed to provide adequate scope to the execution for the manager responsibility system. Contrary to the progress made in the private sector, reforms in state enterprises have in fact come to a standstill and so has the evolution of the anticipated "socialist market economy."

This dissertation shows that a fundamental reason for the impasse lies in the fact that post-Mao leaders, while attempting to amend China's socialist order with proven methods of market economies, have shied away from the challenge of establishing a conceptual platform for reconciling Marx and Mao with Adam Smith. Instead, they have resorted to a more convenient program, namely, "separating the Party and government," or, more accurately, separating politics and economics. With this separation scheme, they have maintained the conventional discourse on

socialism and meanwhile appropriated a separate discourse which represents economic policies and actions as politically innocent events that are directed only by the "invisible hand" of the market and the "inviolable" economic "laws." Yet a reform rhetoric which continues to honor Marxist socialism as its framework does not allow government agencies, enterprise managers, or workers to perform in ways required by the market. Until a legitimate reconciliation is conceptualized by post-Mao leaders, "socialism + the market" will remain a problematic formula for reform.

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CHAPTER 1

INTRODUCTION TO CHINA'S ENTERPRISE MANAGEMENT REFORM

For the past several years China has been portrayed in the world media as a country in flux. Changes, in the form of joint ventures, foreign enterprise franchises, private businesses, and highrises mushrooming on the landscape, are interpreted to mean that capitalism is quickly penetrating a country where it had been forbidden and banished for more than three decades. Such inroads were in fact widely anticipated, in the late 1980s and early 1990s, to lead to an instant implosion of China's socialist system, as was the case in the former Soviet bloc during that time.¹ In retrospect, the speculation that "China's Communist dynasty is coming to an end"² seems premature. China has not only not relinquished socialism, but the resistance that the market forces have encountered in the attempted transformation of the state industrial sector—the resonant political signifier and material basis of the system—also attest to its persistent influence in the country. Moreover, in addition to the fact that the market-oriented reform continues to be monitored by "communist party-state bureaucracy," as Susan Shirk discussed in her recent book,³ an increasing number of private and foreign enterprises have requested local governments to help set up Party branches on their factory floor.⁴

On the other hand, the demise of the former Soviet Union and the abandonment of the socialist dream in all but a handful of countries have forced the Chinese leadership to reimagine the path down which China will tread. The conclusion of the deliberation is to no longer perceive socialism as an alternative to

capitalism, but as an ideology and practice that can be complemented by mechanisms of the latter. Yet while this political flexibility may have allowed policy innovations and noticeable achievements to take place in other economic sectors, its effect in state enterprises, the stated leading factor of the national economy, has been very limited. The efforts of the leadership to import the "invisible hand" into their management to increase their profit volume has proved mostly unsuccessful. Judged by the economic calculus and cost accounting principles of free market economies, Chinese state firms are still considered inefficient and unprofitable.

This situation of change and continuity in Chinese socialist society, caused by new economic policies, is what inspired the study that follows. Attempting to analyze the entire economy and ramifications of the reform is impossible, hence a focus on state-owned enterprises has been chosen . These are entities whose means of production are owned by the whole people and are allocated and employed by the state on their behalf. Based on their significance in the national economy, state-owned enterprises are either centrally-directed through central industrial ministries or locally-directed through provincial, city, or county industrial bureaus. They are additionally ranked into large, medium, and small-sized enterprises according to their fixed assets, payroll, output value, and taxes to the state. Since the following research attempts to study a few fundamental issues underlying the management reform of state enterprises as a whole, it will not go into their division and ranking. Joint ventures, and private and foreign enterprises are also excluded from consideration .

The dissertation attempts to analyze the process of integration of capitalist mechanisms within socialism, as it has occurred in state-owned enterprises. The

general thesis advanced is that it is not a simple matter to import ideas and practices and substitute them for those that have been ingrained for half a century and have become part of daily life routines. Concepts and mechanisms of the free market, in other words, are not politically neutral, and neither do they exist independently of capitalism. If Chinese reform architects insist on making capitalist means serve socialist ends, they will have to build a conceptual bridge between them. Until then, attempted reforms within state enterprises, the embodiment and mainstay of China's socialism, are unlikely to yield results desired by the Communist leadership.

BACKGROUND TO ECONOMIC REFORMS IN POST-MAO CHINA

THE MAO ERA

In 1956, the Chinese leadership announced that it had completed the socialist transformation of its inherited capitalist industry and commerce. The stench of capitalism ostensibly had been removed. This proclamation signaled that the transition from armed revolution to economic construction and development was finished.⁵ Mao then predicted that it would take China three five-year plans to achieve an industrialized state—an indispensable condition for Marxist socialism—provided peace and stability prevailed.⁶ The scenario of "the Chinese Communist Party leading the whole nation in dynamic economic construction," however, did not occur as Mao foresaw. China instead witnessed two decades of severe socio-political disturbances. These were set off by inner-Party contention over development strategies, not by the anticipated "imperialist subversion."

Leaders in the Mao era shared a common interest in a strong economy and a solidified institution of socialism , but they could not agree upon approaches to the goals. Their differences centered on whether the priority should be assigned to the task of developing the national productive forces or to the purification of production relations.⁷ Except during a few short intervals, those arguing for the latter prevailed. Activities of purification engaged the Party and the nation in successive political upheavals for more than twenty years, climaxing in the "Great Leap Forward" in the late 1950s and the "Cultural Revolution" in the late 1960s.

Contrary to expectations, however, these political campaigns did not bring about the expeditious growth of China's socialist economy. Nor was the living standard of the population improved by much. By the time of Mao's death in 1976, the nation was in fact plagued with serious social and economic crises. Official economic data published about that time noted that "compared with 1952 (the beginning of the First Five-Year plan), the value of fixed assets in state enterprises had increased 27-fold; but the gross industrial and agricultural output increased only ninefold, national income by only fivefold, and the average per capita consumption in both urban and rural areas had only doubled."⁸ In other words, the return on resource investment had been extremely low. The poor economic performance was inevitably reflected in people's daily lives. Thus the post-Mao government was initially confronted with wide-spread grievances, especially in cities, against the invariably low incomes and the "cramped housing, inadequate city services, and shortages of consumer goods." The general public also openly expressed its weariness with the endless political campaigns in which "struggles" between

"classes" were turned into struggles within the same class. Public disdain for the intense factionalism displayed by the Party leadership (and the resultant pointless mass movements) was so acute that many Chinese accepted a superstitious interpretation of the devastating earthquake that struck in July, 1976, as "a sign that the regime was losing its mandate of heaven."⁹

1976: THE "SECOND REVOLUTION" BEGINS

Pressed by the bleak economic situation, the impatience of an alienated population for a more relaxed and comfortable life, and the urgency to re-enforce the declining popularity of the Communist leadership throughout the country, reform-minded post-Mao leaders began the "second revolution" immediately upon gaining power after the Chairman's death. They first instructed the Party and government administration at all levels to re-examine political and legal charges filed against hundreds of thousands of officials and ordinary citizens in the various political movements during the Mao regime, and then to redress unjust and mishandled verdicts through status rehabilitation and financial compensation. Next, in December, 1978, they managed to bring the Party's Eleventh Congress to a unanimous condemnation of the leftist practice (during the Mao era) of emphasizing "class struggle" at the expense of economic growth. Meanwhile, they enlisted the Congress' full commitment to transforming China's economic structure for the purpose of developing productive forces.¹⁰

Economic Innovations in the Countryside

The political revolution that brought the Communist Party to power in 1949 had begun in the countryside. This was also the case for China's economic restructuring—the "second revolution." The initial focus was on agriculture in order to motivate peasants and to stimulate food production. This was done by replacing the commune system with the "household responsibility system." Under the commune system, peasants' incomes had been based on two considerations: family size, and their annually-accumulated work points. The latter were supposed to measure peasants' input of hours and effort. Since they could not be continually monitored, however, it was impossible to accurately judge how conscientiously and effectively each individual had worked. Income and effort were, therefore, only loosely related. The responsibility system, on the other hand, granted each household private property rights to obtain and use income from the land which it leased from the state. After delivering certain quotas of produce to the government, peasants could keep the rest and decide what to do with it. Moreover, although land remained state-owned, peasants had the exclusive rights to decide what to grow on it and could even sublet it or sell the lease. The greater decision-making power on the part of peasants and closer link of a household's effort and rewards resulted in substantial increases in the production of food.¹¹

Attempts to Reform Public Industry

Encouraged by the success in agriculture, the post-Mao leadership decided, in 1984, to extend the responsibility system to the public industrial sector. The catch word was "efficiency." China's state firms were notoriously inefficient,

cumbersome and resource-consuming. To transform them the leadership intended to repeat what it had done in the countryside: decentralize decision-making power and administrative responsibility to each individual enterprise. It expected that by delegating to enterprises the authority to chart operational directions, formulate business strategies, control the allocation of the available resources, and oversee recruitment and compensation, enterprise management would think more strategically and become more business oriented, cost conscious, and entrepreneurial; they would be ready to take risks and willing to compete in the market for survival and prosperity.¹²

Yet by 1994, a decade after the official advent of enterprise reforms, the expectations were still only expectations. The state government had not fully honored its promises to entrust enterprises with decision-making powers over production and management. State firms had not removed operational efficiency barriers. One important reason why the impact of the responsibility system in enterprises pales in comparison with what happened in villages is that state firms are the major embodiment and support of the institution of socialism in China. Reforms of management hence are politically and socially consequential and require justification using Marxist doctrine. The leadership, however, does not seem ready to risk the consequences of the former nor take on the challenge of the latter. Nor does the populace on the shop floor seem enthusiastic about giving up its modest but secure life for a hypothetically affluent but definitely riskier alternative promised by management restructuring. As a result, reform measures have constantly been compromised in the state industrial sector.

THE NATURE OF ENTERPRISE MANAGEMENT REFORM

DECENTRALIZING DECISION-MAKING POWERS TO STATE FIRMS

Problems from Over-Centralization

China's agricultural and non-state sectors have made respectable progress in the current economic reform. Yet "state-owned enterprises continue to dominate the economic landscape."¹³ The latter's continued position of decisive importance in the Chinese national economy is attributed partly to the fact that they are key sources of revenue for both state and local governments, and partly from their important role in China's industrialization, which is deemed indispensable for the evolution of socialism. With the implosion of socialist institutions in the former Soviet Union and Eastern Europe, Chinese policy makers have concentrated more on enterprise reforms and industrial growth as they believe that economic failure was the main reason for the collapse of the former Soviet Union and Eastern Europe and the chaos that followed.¹⁴

Economic efficiency has been the primary consideration in China's search for new mechanisms and rules to transform the structure and operation of state enterprises. While acknowledging the necessity to centralize financial, material, and human resources for expeditious economic recovery after the founding of the People's Republic in 1949, many Chinese now blame central planning and the absence of the market for the sluggishness and inefficiency of state firms during the Mao era. A common criticism states that the centralized system subjected enterprises to the control of multiple government agencies which were designated to coordinate economic development with their specific planning functions. In the

extremely long and complex planning process, enterprises were only passive executors with little opportunity for initiative or involvement in decisions over production quotas, material and human inputs, marketing, prices, and allocation of profits. On the other hand, while output targets for enterprises were mandatory, the planning system did not embrace an award-penalty system to induce efficiency in their performance. This only-output-counts procedure resulted in enterprises striving to enlarge their output volume by expanding production without any regard for marginal costs or resource conservation. In conclusion, it is believed by many that the centralized planning system of the Mao era dispersed the consequences of policy and operational failures and encouraged built-in bureaucratization and waste.¹⁵

Increasing Efficiency Through Decentralization

To remove the barriers to efficiency rooted in the centrally-controlled economic order, the post-Mao leadership has been actively engaged in decentralization of authority through the reform of enterprise management.¹⁶ Aimed at delegating decision-making powers directly to production units, the reform chronicle began in 1979 with the government decision to let enterprises retain part of their profits and decide where and how to use them. Seeking to improve the operational efficiency of enterprises through profit incentives, the leadership increased management autonomy between 1983 and 1984 through the policy of replacing "profit retention" with "profit taxation." The aim of the new policy was to put more profits at the disposal of the state enterprises. Immediately after the change, the leadership advanced a more liberal proposition in late 1984: to gradually

obliterate mandatory targets and let enterprises plan their own production and allocate resources according to market demands. To consolidate the linkage between profit reward and economic performance, and to stabilize the inflow of state revenue, the "management responsibility system through contracts" was instituted in state enterprises in 1987. Under this system, state agencies and enterprises decided through consultation the amount of taxes that would be paid by the latter to the former before each fiscal year. While remaining entitled to after-tax profits, enterprises were subject, at least in theory, to economic penalty, if they failed to comply with the terms of contract. To ensure the autonomy of enterprise management and to make it liable for its performance, the Enterprise Law and the Enterprise Bankruptcy Law had been written. In 1988, these laws began to be enforced. The efficiency-oriented economic decentralization climaxed in 1992 when the Party's 14th Congress made the decision to switch China's economic system from planning to marketization. This transition was expected to finally free state firms from direct government control but would also pressure them to operate in response to the market.

Yet allowing enterprises full operational autonomy alone does not by itself automatically improve their performance or convert them into corporations exercising their rights and performing their duties as defined by systems of contracts and law. To complete the conversion, their intra-organizational management concepts, strategies, and procedures, which were formed in and adapted to a centralized economy, must be transformed at the same time. Thus in 1992, when clarifying that China's economic restructuring was to be a market-oriented reform, the leadership stated in explicit terms that the transformation of

managerial mechanisms in state enterprises was the key to the entire marketization endeavor.

"SEPARATING PARTY AND GOVERNMENT" THROUGH THE MANAGER RESPONSIBILITY SYSTEM

As the process of delegating decision-making powers to state enterprises began, a more challenging and crucial issue unfolded: how to redefine the Party's leadership in the increasingly market-oriented economy and profit-driven management. This question arose from the reality that under China's centralized system the concentration of microeconomic decision-making and administrative powers was never really within government agencies; it was within the Communist Party. This situation had a historical basis and course of development. Governmental organizations at various levels had only begun to be built during the early years of the People's Republic of China. Governmental functions were therefore basically executed by Party committees or work teams.¹⁷ Yet when the administrative organs were established at the several levels within the bureaucracy at-large, Party committees did not delegate executive functions to them as promised and expected. A major reason for the failure of power transfer was the taken-for-granted political logic that the Communist Party exercised full leadership in China and its organizations should and would better coordinate government activities in implementing its programs.¹⁸ In order to perform day to day administrative duties, the Party thus developed executive branches in all fields and at all levels. The structural and functional expansion of the Party organization duplicated its

government executive and administrative counterparts, rendering the latter devoid of power.

The post-Mao leadership was aware of the situation and acknowledged that the "Party was neither large enough, nor skilled enough, to manage all the details of an increasingly complex economy."¹⁹ It began to search for a solution in 1982, by decentralizing Party authority on a trial basis in selected enterprises. The experiment concentrated on clarifying respective functions and responsibilities of the Party committee and management in organizations and reducing the former's direct control over administrative matters. At its Thirteenth Congress five years later (October, 1987), the Party leadership expressed its satisfaction with the experiment and decided to extend the decentralization nationwide in the form of "separating the Party and government." According to the announcement of the Congress, the Party organization would gradually relinquish its absolute leadership in all industries and exercise only political leadership. Such political functions were to include overseeing the political orientation of national economic activity, formulating principles, making policy decisions, and nominating leading personnel for government organs and grass-roots economic organizations.²⁰ Responsibility for the day-to-day economic routines was no longer under Party control.

Under the separation policy, the Party committee's major task in a state-owned enterprise was to support and supervise the manager in his/her exercise of overall leadership. The manager, being the legal representative of the enterprise, was to negotiate contracts with state agencies, make production plans, arrange administrative setups, appoint or remove staff members, and decide economic

rewards and penalties of employees.²¹ The authority of managers was later legalized by the Enterprise Law adopted by the 7th People's Congress in April, 1988.

The leadership's commitment enabled the shift of the center of responsibility on the shop floor to quickly pick up momentum. By the end of 1987, two months after the initiative of the separation policy, 68% of state enterprises had reportedly installed the manager responsibility system.²² Meanwhile, the functions of Party officials and committees were greatly limited; this considerably reduced their influence. When the Party organization in experimental enterprises first released its grip on decision-making and routine administration, between 1982 and early 1987, it had remained an important component of management, participating in all decisions on production and personnel. In the "separation" thrust, however, its functions in management were reduced to organizing seminars for political education. During 1988–89 the argument that the political education of employees should be in the service of production and hence be put under the charge of managers got the upper hand. Party committees then became literally irrelevant in enterprise management. As their roles diminished, Party committees and officials on the shop floor also experienced demotion in size and status. In many state firms, the Party organization was reduced from a full-bodied committee to an office with one official and one clerk, and the Party official was given a rank inferior to not only the manager, but also the chief engineer, the chief accountant, and the director of managerial staff.²³ In the aftermath of the Tiananmen incident, Party committees in state firms did regain their status of political centrality and were

reconstructed to their full size. Yet enterprises continued to operate under the manager-centered responsibility system, which prevails to the present.

TRANSFORMATION OF OWNERSHIP AND LABOR SYSTEMS

The post-Mao leadership's voluntary reduction of Party authority in state enterprises testified to its resolution to replace political decision-making in the industrial sector with the impersonal market mechanism. Separating Party and government was also a depoliticizing procedure for putting the management of state firms on a more professional footing. The leadership has argued that modern commodity production primarily depends for its success on science and technology, and the prompt and accurate analysis of market signals of relative scarcity . Hence, in order for Chinese state enterprises to become profit-conscious and responsive to market incentives and disciplines, professional managers, rather than Party committees, should head the administrative apparatus on the shop floor. When experts with technical and managerial know-how ascend to the center of authority, enterprises' planning and operational processes would likely become more scientific and they would compete more consciously and successfully on the market.

Yet the market was a new institution in China's socialist economic framework, and many technocrats who were promoted to prominent managerial positions during this period of enterprise reform had little expertise in operating industrial corporations exposed to market forces. To advance their administrative skills and help them effectively exercise their quickly expanded economic rights, both central and local government agencies have channeled a great amount of resources to management education since the late 1970s.²⁴ Curricula developed for

training programs included market analysis, planning, bookkeeping, financial and cost accounting, marketing strategies, and quality control. With increasing prominence given to "scientific" management, frequent references were also made to management concepts and practices prevailing in market economies. In many cases, professors and corporate executives from the West were invited to directly teach courses, and managers were also sent to study in MBA programs abroad, or to personally observe how their counterparts in capitalist societies organized production.²⁵

The systematic effort devoted to management education, however, has not yet led to efficient performance of the public industrial sector or a solution to the persistent problem of sluggish growth. Rather, the problem of inefficiency has worsened since the late 1980s. For example, enterprises reporting losses increased from 11 percent of the total in 1989 to 52 percent in 1992.²⁶ Many Chinese scholars and economists attribute the problem to continued excessive government intervention in enterprise production and the absence of market forces in labor organization and income distribution on the shop floor. They argue that as long as state enterprises remain under the absolute "whole people" ownership effected through state bureaucracy, managers cannot possibly have a real free hand in their operation, no matter how "professional" or "market-minded" they are. Government agencies, the legitimate trustees of public assets at the disposal of state firms, they maintain, are justified to impose their judgment and concerns on enterprise management. The absolute "whole people" (state ownership) status, moreover, also neutralizes the threat of bankruptcy and hence reduces the incentive for

managers to operate in a cost-efficient way. Therefore, although surplus labor and egalitarianism are acknowledged as the two major barriers to efficiency and improved motivation on the shop floor, few managers have attempted to adjust their work force size according to market demands, or correlate employees' incomes with their performance.²⁷ To change the dire economic situation of state enterprises, according to the analysis of these scholars and economists, management reform should focus on transforming the state ownership system, labor organization, and income distribution.

The post-Mao leadership seemed to have come to the same conclusion and has been searching for conceptual and operational breakthroughs with respect to these issues ever since the installation of the responsibility system in state enterprises. For example, it has encouraged the holding of forums on state ownership in the theoretical and managerial circles. These have been in process since 1987. The leadership has subsequently accepted suggestions by the forum to separate state ownership into legal ownership (for the state) and economic ownership (for enterprise management), and to introduce both leasing and shareholding systems into the state industrial sector. Moreover, to remove impediments to the effort of applying market rules to the management of personnel and to inspire efficiency, the leadership has adopted a series of measures to transform the labor system. For example, in 1986 it introduced the labor contract system. This was intended to eliminate job tenure for workers who became employed after it went into effect. To promote performance-based compensation and use income disparities as a stimulus to efficiency, the program of "optimization

through regrouping labor" was introduced in 1988. In this program, workers and staff members performing inadequately would be removed from their positions and "regrouped." They then had to put up with reduced paychecks during a retraining or replacement period. To get rid of the enormous surplus labor amassed in state enterprises and stimulate competition on the shop floor, labor reform was, in 1989, further clarified as an endeavor to "smash the iron rice bowl," or lifetime employment and secured wage incomes. To encourage managers to base their decisions regarding labor size and allocation on market demand and efficiency analysis, the leadership approved, in 1990, the establishment of a social welfare system, in which an unemployment insurance fund was a key component. Finally, in 1992 mandatory recruitment quotas for state firms were eliminated, and enterprises were allowed, in principle, to hire workers directly from the labor market according to their need. This decision was of great importance since the official acceptance of a labor market meant that management could not only recruit but also lay off and dismiss workers.²⁸

These examples of reformist measures suffice to demonstrate that the post-Mao leadership is determined to increase enterprise efficiency and accountability. Yet while these measures may be essential for improving the poor market returns of state firms, they also add complications and frustrations to the reforms themselves. This is because ownership reform and transformation of employment and distribution systems are not simply technical mechanisms for introducing market forces to the management of state enterprises. They are issues of political economy, and alterations create changes in the political nature of the economic

system and in social relations. This means, contrary to common expectations, that enterprise reforms launched in order to depoliticize state firms and to professionalize their management are themselves a political engineering attempt and subject to the whims of political institutions and prevailing social values in post-Mao China. This also helps explain why management reform, characterized by decentralization through granting ownership rights and authority in labor organization and remuneration to the enterprises, has not worked as well as expected, although the leadership has stressed time and again that the key to building a free market economy within China's socialist system is through enterprise reform, in particular the reform of management .²⁹

THE ABSENCE OF CONCEPTUAL LINKAGES BETWEEN CHINA'S SOCIALISM AND THE ATTEMPTED MARKET ECONOMY

INCORPORATING PROVEN CAPITALIST PRACTICES

Like their predecessors, post-Mao Communists assert that the trial of strength between socialism and capitalism will ultimately find expression in the competition for economic development. They claim that economic issues have an important bearing not only on China's socio-political stability but also the future of its socialist commitment. Thus, to sustain and advance socialism, post-Mao leaders argue, as their predecessors did, that first priority should be given to the development of China's productive forces.³⁰

Yet post-Mao leaders take a different approach from their predecessors' to the mission of economic development, as defined by their socialist vision. While Mao and his colleagues maintained that strict Marxist socialism offered the best

means for China to succeed in growing economically and competing for wealth and power with the capitalist world, their successors are convinced that "China will be doomed to backwardness and decrepitude unless socialism is amended by the proven methods of capitalist development."³¹ Proceeding from this conviction, post-Mao leaders contend that their predecessors distorted socialist institutions by dogmatically fostering the socialist mode of production and held back the economic growth of the nation by overly emphasizing class struggle.³² The bleak picture of the backward productive forces that they portray for the Mao era states that

socialization of production, which is essential for expanded socialist public ownership, is still at a very low level; the commodity economy and domestic market are only beginning to develop; the natural economy and semi-natural economy constitute a considerable proportion of the whole; and the socialist economic system is not yet mature and well developed.³³

Based on their diagnosis of problems in China's economy, post-Mao leaders embarked on reform, an extremely challenging project for any political system. Their reform agenda seems to constitute a single-minded pursuit of developing China's productive forces, primarily through rejuvenating state enterprises. Impressed by the advocacy to allow the "invisible hand" to do its work without interference, they have chosen to approach the mission through full application of the market mechanism and utilization of management formulas that originated in free market economies.

CAPITALISM WITHIN SOCIALISM: A CONTRADICTION IN TERMS

Yet the resolution to transform China's economic system and improve the growth rate cannot change the fact that the reform was launched by the Communist leadership. Although it attempts to achieve the best possible economic

performance, the reform is being directed and monitored by politicians; not by economists or other professionals. Whether they are moderates or radicals,³⁴ or conservatives or liberals,³⁵ post-Mao reform architects are all professed Communists and remain committed to socialism as the framework for both China's political and economic system. This means that not only alleged economic priorities in the reform may fall victim to political commitments and social concerns, but reform procedures and rationale must be justifiable by dominant political discourse as well.

Thus, while determined to replace mandatory state plans with market forces as the monitor of the national economy, post-Mao leaders have not expressed any intention to change China's existing socialist mode of production. Although they are seeking to reduce government interventions in enterprise production and management, they have not created new owners for state enterprises, and they continue to emphasize the dominant position of state ownership in the increasingly market-oriented economy. On the one hand, they are trying to install the corporate system in the public industrial sector and promote technocrats and specialists to the center of command. On the other hand, they remain steadfast about maintaining the absolute leadership of the Communist Party in post-Mao China. Finally, to improve operational efficiency and job performance of the work force, post-Mao leaders have made great efforts to empower managers with decision-making ability on labor planning, placement, appraisal, compensation, and promotion. Yet, at the same time, they keep reminding managers that industrial workers are still the leading class in China and that income disparities resulting from performance- and

profit-based practices should be allowed on the premise of universal prosperity, and kept within limits.³⁶

FAILURE TO DESIGN A NEW CONCEPTUAL FRAMEWORK

Initial Avoidance by the Leadership

This obvious attempt to blend conventional socialist principles with mechanisms and rules of free market economies requires theoretical guidance and operational programs for implementation. Since Marxist socialism is founded on the critique of capitalist institutions and practices that arise from and sustain free market economies, post-Mao leaders need to establish a conceptual platform to address and compromise differences between the two modes of production in regard to ownership, distribution of economic wealth, and employer-employee relationships. Without a new political order that can accommodate both systems, it should be very difficult, if not impossible, for China to make its way into the aspired socialism-plus-market economy.

Yet either because founders of Marxism did not expound the potential for integrating socialist institutions and free market mechanisms, or because the issue of a conceptual reconciliation between the two is too complex and sensitive, post-Mao leaders do not seem eager to take on the task. They have either shied away from the challenge, or sought to stretch the orthodox framework so as to make room for free market concepts and practices. In this capacity, the first thing they did, in 1978, was to recapitulate the principles of "seeking truth from facts," and "the only criterion for judging truth is social practice." Their point in reiterating the principles was that theory should not be divorced from practice and that when

historical changes or transitions resulted in tensions between the two, practice should not be held back or tailored to satisfy dogma. People should, rather, proceed with practice and seek new unity with theory in the process. Applying this argument to economic reform, post-Mao leaders claimed that reform was a mass-scale social practice aimed at developing productive forces, which, according to Marxist historical materialism, were the decisive factor in the progress of society. Any reform program that might prove instrumental to their development should thus be encouraged and should be appraised only by results with respect to practice. If in the process of implementation a program was found to operate in favor of the development of productive forces but was at variance with certain conventional socialist concepts and their representations in socio-political-economic relations, it was usually suggested that the latter did not suit productive forces at the given historical stage and should be redressed for compatibility.³⁷

The pragmatic approach of emphasizing the primacy of social practice and productive forces made it possible for post-Mao leaders to embark on the reform program of marketization without immediately addressing the issue of orthodox standards and principles. Yet the question of how Marxist socialist institutions should interact with the free market at both the conceptual and operational levels still required an answer before reform could develop in depth especially in the public industrial sector. Not wanting to take on the challenge, however, post-Mao leaders tried to sidestep the politically sensitive and controversial issue by arguing, in 1984, that commodity production and exchange were a genetic part of a socialist economy. They asserted that the coexistence of both state and non-state economic

sectors in China, along with the relatively poor and inadequate transport and information facilities, required that central plans and administrative orders must work with the market in order to coordinate the diversified economic activities over the nation's vast territory. To support this argument, they also quoted Lenin, who followed a similar line of reasoning when he equated the attempt to approach industrialization through "a complete, integrated, real plan" right after the October Revolution to "a bureaucratic utopia," and confirmed the validity and importance of commodities and market in Russia's socialist economy.³⁸ The implication of indicating that the market was represented positively in the annals of Marxist political economy was that the market was an organic and necessary component of socialism and therefore did not require theoretical elaboration of its functions in China's socialist economy.

Making Due with the Concept of "Primary Stage Socialism"

This argument for the relevance of the market in socialism was, however, insufficient to explain away the fact that what post-Mao leaders sought was not just any market mechanism, but one specifically fashioned on western concepts and rules of free market economies. To justify the applicability of the free market to China's socialist economy, the leadership put forward the concept of "primary-stage socialism" in 1987 at the Party's 13th national congress. The concept asserted that if socialism in the Marxist sense was built on highly developed capitalism, China could only be at a primary stage because its socialist revolution occurred in a semi-feudal society and its socialist order was established on a backward economic foundation. To advance socialism in such an evidently pre-capitalist situation, China

not only had to concentrate on economic growth, but its economy had to depend on many remnants from capitalism as well.³⁹ To further justify the concept, post-Mao leaders turned to the same argument of Marx which they had employed in 1984 to support their initial proposition for developing a commodity economy in China:

No social order is ever destroyed before all the productive forces for which it is sufficient have been developed, and new superior relations of production never replace older ones before the material conditions for their existence have matured within the framework of the old society.⁴⁰

The primary-stage concept was obviously meant to stretch the tolerance of Marxist orthodoxy so as to allow free market principles to take on a major role in China's socialist economy and enterprise management. Its effect was, however, frustrated by the same problem, namely, it offered no account of how socialist institutions should interact with development paradigms created by capitalism. Yet unless post-Mao China could specify a way to conceptualize a legitimate reconciliation between them, consolidating and advancing its socialist system with the aid of capitalist mechanisms might remain wishful thinking, and the scheme of a temporary detour to a market economy for an ultimate return to advanced socialism was nothing but a speculation over the future of Chinese socialist order.

The leadership did, however, propose, at the Party's 13th National Congress (1987), a program for "separating the Party and government" as an expedient measure for the compromise with capitalism, as suggested in the primary-stage concept. This suggested that China should maintain its socialist orientation primarily through upholding the Party's authority in the nation and observing the Marxist conception of socialism for theoretical guidance. Once socialist commitment was secured at the ideological level, the microeconomic sector should

become the jurisdiction of the professional-managerial class and should be permitted to operate under the market system and look to capitalist methods and techniques for solutions to solve the endemic problem of slow economic growth.

This dichotomy between politics and economics seemed to have a strong appeal for the leadership. It was perceived as a convenient way of putting off the task of expounding conceptual issues posed by the attempt to accommodate the free market within socialism, . At the Party's 14th national congress in 1992, the leadership not only reaffirmed the building of a "socialist market economy" as the ultimate goal of China's economic reform but continued to define this aspired-to institution as a combination of the socialist socio-political order and a market-driven economy. Reflecting the strategy of separating politics and economics, its definition of the former remained in conformity with the Marxist vision of socialism that emphasized public ownership of means of production and distribution according to work. Its description of China's market-oriented economy, on the other hand, was illustrated with references to rules and models of free market economies that revolved around efficiency and profitable returns from production and distribution.⁴¹

While post-Mao leaders acknowledged the necessity of political reform in order to remove institutional political barriers to the development of productive forces, their separation scheme seemed to have offered few opportunities for changes in that capacity. Also, if the scheme were meant to keep the definition of socialism "at the primary-stage," or "with Chinese characteristics," within Marxist terms, the forums that were set up to explore possible amendment of China's existing social institutions, especially the public ownership system and practices of

egalitarian distribution, were bound to be constrained within the same frame of reference. This being the case, the institutional status quo was more likely to be reinforced than remodelled. Given the absence of a tangible conceptual linkage between China's socialism defined in the classical Marxist sense and the market mechanism created by capitalism, existing socialist institutions have frustrated the effort to build a market-driven microeconomic sector.

PERPETUATION OF CONVENTIONAL SOCIALIST CONCEPTS AND DISCOURSE AND THE IMPACT ON MANAGEMENT REFORM

Socialism, as the dominant ideology in China, does not exist merely in the form of political beliefs typical of the Communist Party and its movements. Nor do its concepts "drift through the social world like clouds in a summer sky." Socialism, rather, specifies how the social, political, and economic order operates in China's socialist material contexts of everyday life, and socialist beliefs are constitutive elements of the social lives within these contexts.⁴² The historical review of the development of enterprise management under the Communist regime in Chapter 2 reveals that the impact of the dominant ideology on the organization and operation of state industrial firms is particularly strong.

Socialism in China is a Party-based ideology and practice. Its influence on enterprise management is thus firstly perceived in terms of who should be in command on the shop floor, the Party organization or professionals. Leaders in the Mao era attached great importance to the Party's control over state enterprises because they were committed to the Marxist historical materialist philosophy, which signified the economic base, including both productive forces and production

relations, as "a long-term determinant of the superstructure, i.e., the political, cultural, social, and educational systems."⁴³ From their professed materialist world outlook, state enterprises, as basic building blocks of the national economy, not only played a decisive role in China's industrialization, which was esteemed as the material foundation of socialism by Marxists. Additionally, their internal organization, which embodied the essence of socialist relations conceived by Marx and his disciples, suggested that they also upheld China's socialist institution and hence the legitimacy of the Communist leadership.

INSTITUTIONALIZATION OF SOCIALIST PRINCIPLES IN THE WORK-PLACE

In the Communists' often contentious efforts to establish and consolidate the Party's power on the shop floor, state enterprises' political role in the social edifice was gradually clarified and became institutionalized. Inasmuch as production and productivity were stressed, enterprise leaders became conscious of their noneconomic obligations, as defined by the nation's socialist faith. It became common knowledge that their pursuit of managerial, technical, and economic rationalism for effective management and productive efficiency should complement, rather than undermine, several tasks. These included sustaining the fused political and economic authority of the Party, securing the prestigious social status of the working class, eliminating professionals' powers and privileges, enhancing workers' participation in decision-making and management, and motivating the work force by political stimuli and appeals to altruism and self-sacrifice for the collective and the state.⁴⁴

In the process of translating socialist ideology, generally understood by Chinese as public ownership and egalitarian dispersion of economic wealth, into the political tasks to be done by state enterprises, a particular discourse was created and institutionalized which synthesized socialism as a "revolutionary vision that brought the Communists to power" with socialism as an ideology of development.⁴⁵

Through expressions such as "grasp revolution to promote production," "put politics in command," "red and expert," "wisdom comes from the masses," "workers are the masters, and leaders are their servants and students," "combining brain work with brawn labor," "three-in-one management group" (consisting of workers, technicians, and cadres), and "mutual prosperity," socialist beliefs and their specific representations in state enterprises were exemplified and transmitted to the entire society as well as to those working on the shop floor. Such expressions conferred tangible meanings to the social relations that were aspired to reach a socialist setting for the "whole-people-owned" enterprise, and also created values upon which the Party organization, management, and workers could "acquire a sense of themselves" and interact with each other.⁴⁶

SOCIALIST PRINCIPLES CONTINUE TO BE PARAMOUNT AMONG CHINA'S LEADERS

Driven by their urge and necessity to stimulate economic growth, post-Mao leaders seem resolved to remodel state enterprises and convert them back into economic entities regulated by market leverages. Resorting to the notions of primary-stage socialism and separating politics and economics, they seek to place management under the jurisdiction of professionals and technocrats free of

ideological restraints and political interference. To empower managers with the authority of making production decisions and allocating material and human resources "owned by the whole people" but amassed in the enterprise, post-Mao leaders are even willing to explore possibilities and avenues for transforming the state ownership system and the correspondent employment and incentive structures in the public industrial sector. As enterprise reforms have not brought about the desired efficiency and productivity, ownership and labor reforms are designated the top priority on the reform agenda since the early 1990s.

Yet no longer honoring a wholesale commitment to orthodox socialism does not mean that post-Mao leaders have given up their Marxist historical materialist world view in conducting national affairs and explaining social relations in the reform era. As Chapter 3 indicates, they are, in fact, explicit about the conditions in which concepts and practices of market economies are admitted to assist enterprise reforms: they must "serve, rather than subvert, national autonomy and a national self-image grounded in the history of the socialist revolution."⁴⁷ Post-Mao leaders, however, have only sketchily discussed the notion of "primary-stage" socialism in government work reports and bulletins, and hence the alleged theoretical base of the reforms fails to enlighten the integration of China's socialist economy with market forces and its incorporation in "a world order of which capitalism is the organizing principle."⁴⁸

One result of the lack of an alternative conceptual framework for socialism at its "primary stage" is that the forum on transforming the state ownership system, as will become evident in Chapter 4, and labor organization and incentive

mechanism (Chapter 5), is contained within conventional socialist conceptions and rhetoric developed in the Mao era for different socio-political priorities. Although they are willing to relax ideological restrictions on these institutions so that enterprise management can be legitimately authorized to allocate societal assets (including human resources) in state firms exclusively on a profit and loss basis, neither the so-called conservatives nor alleged reformers in the post-Mao leadership and academia have yet been capable of conceiving or articulating reform proposals outside of the confinement of orthodox socialist standards. Unable to transcend the Marxist persuasion regarding social joint ownership, exploitation through wage labor, and labor/hour measurement of performance for income distribution, their discussion on these issues gives rise to theoretical confusions about the on-going management/administration reform and sends mixed signals to enterprise managers about their new mission of making the size and allocation of the labor force reflect market demand, and motivating the work force with material incentives and income disparities.

While not challenging the conventional interpretation of socialism, post-Mao leaders and the theoretical circle nevertheless make direct references to concepts and practices of free market economies for economic guidance in general, and management tips in particular. Implicit in their discussion of "socialism" and "market" in two separate languages is the assumption that maintaining an ideological commitment to socialism and the legitimacy of the socialist order should suffice to both sustain the integrity of the socialist order and create enough space in China's economic system for the free market to function. The reform reality of the state industrial sector, however, does not deliver the expectation.

Chapter 6 shows how the failure to develop a conceptual linkage and a new language between Marxist socialist institutions and "scientific" management measures from market economies reduces the latter to irrelevant buzzwords and erodes the possibility to fill the vacuum in enterprise control created by shrinking state plans. One explanation for the ineffective attempt to reconcile socialism and the free market by honoring both of their discourses lies in the fact that in China socialist ideology and its expressions are so influential that they suppress the existence and function of other ideological and discursive forms. Thus until the imported market mechanisms and their underlying concepts can be expressed in a way that is compatible with China's political ideology and representations, their impact on the management of state enterprises will remain limited. In other words, since the predominant political discourse in a society reflects its prevailing power structure and incorporates rules and norms that regulate its members' behaviors and interactions commensurate with their positions in the structure, Chinese reform rhetoric, which continues to honor Marxist socialism as its framework, does not allow government agencies, enterprise managers, and workers to perform in ways required by the market. Thus, on the one hand, the government seeks to distance itself from the running of state enterprises and allow market forces to take charge through management. On the other hand, its continued proprietor's status perpetuates its need to intervene for social and political concerns. Similarly, managers are urged to claim their authority guaranteed by the Enterprise Law and concentrate on improving productivity and efficiency by following the "economic law" underlying market economies. Yet their continued subordinate position in relation to the Party organization, government agencies, and workers conferred by

China's socialist order and discourse, suggests that their performance is still monitored more by political and bureaucratic criteria than market indicators.

WORKERS' ADHERENCE TO SOCIALISM IN ENTERPRISE ROUTINES

In addition to the incompatibility between socialism of the Marxist school and a free market economy, and the incoherent reform policies resulting therefrom, the labor management reform has also encountered resistance from workers .

Underlying their opposition to the official reform discourse and procedures is their attachment to the established practices in the socialist labor system. This popular consent towards the existing socialist order (Chapter 7) grows directly out of the successful integration of the working class into the Chinese Communist State.

They are now a decisive political force; this has led to patterns of social and economic interaction in daily life becoming centered around labor. In other words, socialism appeals to workers because they extract from it, to borrow from Antonio Gramsci's "hegemony" theory, "meanings that express their needs and desires..., visions of the world and...their happiness, programmes that satisfy their thirst for social justice."⁴⁹ In the terminology of Anthony Giddens, workers' awareness and participation have rendered socialism into routinized practices and a way of life that they are not ready to trade for the uncertain and risky market. Their knowledge of and involvement in production and labor management have, moreover, enabled them to challenge the post-Mao attempt to change the institutionalized socialist modes of enterprise routines. For both the normal industrial production and the success of the enterprise reform require the willing participation of workers. To maintain social stability and the political legitimacy of the Communist leadership, Chinese leaders

have been responding to workers' pressure with constant compromises of their labor reform ambition and procedures. This, in turn, has regenerated workers' awareness of the entrenched socialist modes of conduct in enterprise management and reinforced their bond to socialist institutions.

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²⁹ See "Implementing the Regulations and Accelerating the Transformation of Managerial Mechanism: Commemorating the First Anniversary of the Regulations on Transforming the Managerial Mechanism of State Industrial Enterprises," People's Daily (Overseas Edition), July 23, 1993. (shenru huanche tiaoli jiaokuai zhuanhuan jizhi: hinian quanmin suoyouzhi gongye qiye zhuanhuan jingying hizhi tiaoli banbu yi zhounian)

³⁰ See the editorial "Dedicate Heart and Soul to Economic Construction," People's Daily (Overseas Edition), January 30, 1991. (yixin yiyi gao jianshe)

³¹ Arif Dirlik, "Postsocialism? Reflections on 'Socialism with Chinese Characteristics,'" in Arif Dirlik et al. (eds), Marxism and the Chinese Experience, (Armonk, New York: M.E. Sharpe, Inc., 1989), pp. 366.

³² Resolutions of the Central Committee of Chinese Communist Party on Key Historical Issues of the Party Since the Founding of the People's Republic, (Beijing: People's Publishing House, 1981), pp. 31-32. (zhongguo gongchandang zhongyang weiyuanhui guanyu jianguo yilai dang de ruogan lishi wenti de jueyi)

³³ Zhao Ziyang, "Advance Along the Road of Socialism with Chinese Characteristics," Beijing Review, November 9-15, 1987, p. 26

³⁴ See Harry Harding, 1987, pp. 77-83.

³⁵ See Sukhan Jackson, 1992, pp. 35-41.

³⁶ This discussion is based on Zhao Ziyang, "Advance Along the Road of Socialism with Chinese Characteristics," Beijing Review, November 9-15, 1987; "The Working Class Is the Principal Force in Implementation of the Communist Party's Basic Line: Commemorating the May 1 International Labor Day," People's Daily (Overseas Edition), May 1, 1992; "Program for Socialist Market Economic Structure," People's Daily (Overseas Edition), November 18, 1993. (gongren jieji shi guanche dang de jiben luxian de zhulijun: qingzhu wuyi guoji laodongjie; shejui zhuyi shichang hingji tizhi de gangling)

³⁷ See Sun Changjiang, "From Practice as the Criterion to Productive Forces as the Criterion," People's Daily, May 9, 1988. (cong shijian biao zhun dao shengchanli biao zhun)

³⁸ Decision of the Central Committee of the Communist Party of China on Reform of the Economic Structure," Beijing Review, October 19, 1984, p. VII.

³⁹ Sukhan Jackson, op. cit., 1992, pp. 41-48.

⁴⁰ Cited from Karl Marx, Preface to A Contribution to the Critique of Political Economy (1859) by Su Xing in "Understanding China's Socialist System," Beijing Review, November 26, 1984, p. 23.

⁴¹ See Jiang Zemin, "Accelerating Reform and Opening Up to the Outside World and Modernization and Striving for Greater Victory in the Cause of Socialism with Chinese Characteristics: Report to the 14th Party's Congress," People's Daily (Overseas Edition), October 21, 1992. (jiakuai gaige kaifang he xiandaihua jianshe bufa duoqu you zhongguo tese shehui zhuyi shiye de gengda shengli)

⁴² This discussion on socialism is based on John B. Thompson's works: "Language and Ideology: A Framework for Analysis," The Sociological Review, Vol. 35, No. 3, 1987, pp. 522-523; and Studies in the Theory of Ideology, (Cambridge: Polity Press), p. 1-11.

⁴³ Joseph Y. Battat, Management in Post-Mao China: An Insider's View, (Ann Arbor, Michigan: UMI Research Press, 1986), p. 33.

⁴⁴ Barry M. Richman, Industrial Society in Communist China, (New York: Random House, 1969), chapters 1 and 2.

⁴⁵ Arif Dirlik, "Revolutionary Hegemony and the Language of Revolution: Chinese Socialism between Present and Future," in Arif Dirlik et al. (eds), 1989, p. 27.

⁴⁶ Statements in this paragraph and the discussion on ideology and discourse are based on John B. Thompson, op. cit.; Michael Shapiro, The Politics of Representation: Writing Practices in Biography, Photography, and Policy Analysis, (The University of Wisconsin Press, 1988), Chapter 1; Michael Shapiro and Deane Neubauer, "Spatiality and Policy Discourse: Reading the Global City," Alternatives, XIV, 1989.

⁴⁷ Arif Dirlik, op. cit., pp. 366-367.

⁴⁸ Ibid., p. 367.

⁴⁹ Theodros Kiros, Toward the Construction of a Theory of Political Action: Antonio Gramsci, (New York: University Press of America, Inc., 1985), p. 247.

CHAPTER 2

DEVELOPMENT OF ENTERPRISE MANAGEMENT 1930–1978: CONCEPTUAL CONTENTIONS OVER LEADERSHIP

Anthony Giddens argues that social behavior at both the individual and the system levels is produced, reproduced, integrated, and transformed by social participants following rules, values and meanings. In the process of recursion, certain behaviors, physical or verbal, become social institutions that outlast individuals who may have initiated or performed them.¹ John B. Thompson also thinks that social institutions and political discourses that represent relations of power within the institutions "are produced and received by individuals situated in specific social-historical circumstances."² The study of the pervasiveness of institutionalized practices in the management of Chinese state enterprises can thus be meaningfully pursued in a social-historical context. The analysis of the social-historical context will also illustrate how discursive forms mobilize social values and norms and serve to perpetuate institutionalized practices.

A well-known remark by Mao states that of all things in the world, people are the most precious and that the more people, the more vigor and enthusiasm. Yet in reality the enormous size of the "treasure" that China possesses seems to have been a heavy burden for the Communist Party. It has proven extremely challenging to organize this large population that Sun Yat-sun described as a "sheet of loose sand," and to channel their "zeal" into coordinated political revolution and economic construction. Therefore, the Chinese leadership has always taken organizational policies and practices seriously. It believes that a successful undertaking in making

a revolution or developing an economy is contingent on how well the general public is mobilized and involved.³

Of the various sectors and levels, the organization and management of the industrial working class and enterprises have always had priority in the Party's agenda. For one thing, the industrial working class supposedly constitutes the core of the foundation supporting the Communist regime. Another reason is that Chinese Communists subscribe to the title of historical materialists and hence have the urge to make China meet the prerequisite for Marxian socialism, i.e., industrialization. The crucial role of state enterprises in accomplishing this goal is self-evident. To enlist the service of enterprises in both revolution and development, Chinese Communists have thus taken great pains since the 1920s, when factories under their control were still in embryonic form, to search for an expedient strategy for cultivating both the political accountability and productive efficiency of state firms.

Yet their path to identify and impose such an organizational framework has not been smooth. From the 1930s to 1978, when the reform was unveiled, Chinese leaders were engaged in a prolonged debate (see Figure 2.1) on the balance between economic performance and the political orientation of state firms, and their policies for the management of enterprises meandered between stressing socialist institutions and emphasizing production goals. Since leaders in the Mao era could not find either references in Marxism or good precedents in the socialist bloc regarding the integration of socialist principles and practices with efficiency and productivity created by market economies, their attention naturally focused on the

YEAR	EVENT	PROMOTES
PRE-LIBERATION SOVIET CHINA		
1930	All-China Trade Union working plan	⇒ Workers
1933	Soviet Republic of China labor law	⇒ Working conditions at-large
1934	Liu Shaoqi's article	⇒ Manager dominates 3-in-1 committee
1943	Shanxi-Gansu-Ningxia Border Region Conference on Enterprise Management	⇒ Manager dominates production decisions
1946	Central Party "instruction"	⇒ forms of democratic management permitted; collective leadership emphasized
1949	North China approach	⇒ person management committee co-equal with manager; Worker's Congress mandated in large enterprises
1949	Northeast China approach	⇒ Manager becomes "plenipotentiary"
POST-LIBERATION		
1949	People's Political Consultative Conference	⇒ Leadership endorses North China approach. Collectivity prevails.
1954	North China switches	⇒ Single manager system is emplaced, on grounds that socialism in the workplace has been successfully achieved
1955	Meeting of Industrial Office of Secretariat of the Party Central Committee	⇒ Rejects single manager system switch for entire country; Party-manager specifics left undefined.
1956	8th National Congress	⇒ Managers criticized for authoritarian attitudes
1957	"anti-Rightist" movement	⇒ Party authority re-stressed
1958	"Great Leap Forward"	⇒ Participatory management, worker involvement stressed
1960	"Charter of the Anshan Iron and Steel Works"	⇒ Party's leadership, participatory management
1961	"Regulations on the Work of State-Owned Enterprises" issued	⇒ Manager's command reestablished; to boost production
1966	"Cultural Revolution"	⇒ "Class struggle" emphasized over production. Army brought in to run enterprises

Figure 2.1 Events and trends in management of state-run enterprises, 1930–1978.

leadership issue. For them, whether the Party organization or professional managers assumed full responsibility would decide whether priority was given to the economic functions of state enterprises or to political accountability. The constant concern of Mao and his associates about the stability of China's socialist order and their anxiety over keeping enterprises on the socialist track ultimately caused the balance of power on the shop floor to tilt toward the Party organization rather than toward managers. Through the Party's three decades of on-the-floor leadership, the political role of state enterprises in Chinese society, by the time the economic reform was started, became conscious, deliberate, institutionalized, and firmly rooted in both theory and practice.⁴

ENTERPRISE MANAGEMENT IN COMMUNIST-CONTROLLED AREAS, 1930–1949

INITIAL ATTEMPTS TO CREATE EFFECTIVE MANAGEMENT

The Chinese Communist Party triumphed in its struggle for state power in 1949. Yet administrative government under its leadership had been in existence in revolutionary bases since the late 1920s when workshops and factories were established to serve the needs of the newly organized Red Army and the Communist movement. These workshops were designated as "soviet factories," or "state-owned enterprises," or "state factories" in the literature published during that time. Statistical data from 1934 showed that the Communists had 32 enterprises, with a total work force of a few thousands. The trades listed included materiel, bedding and clothing, paper making, printing, textiles and tungsten smelteries.⁵

Among the earliest documents written on enterprise management was a working plan issued by the All China Trade Union in December, 1930. It stipulated that the missions of its branches in state-owned enterprises in China's "Soviet Areas"⁶ were workers' participation in management, protection of their rights and well-being, and their mobilization to join in the revolutionary war.⁷ In 1933, a labor law was put into effect in these areas for the Soviet Republic of China. It contained detailed regulations and procedures on employment, working hours, holidays, payment, protection of women, under-age laborers and apprentices, welfare services, working conditions, social security, trade union activity, contracting, managerial rules, and arbitration and penalty.⁸ Yet neither document discussed the decision-making process or the management of enterprises. Moreover, since these factories were in the initial stage of development and were operating in war-time, their managerial systems and production-related activity were often in a state of chaos.

Major problems included quality control, waste, lax discipline, undefined responsibility, and managerial confusion. Because of these, Liu Shaoqi, a senior leader of the Party Central Committee, concluded that the authority of managers should be officially stipulated. This, he argued, would make them more accountable for production and product inspection.⁹ Liu thus proposed an organization scheme based on a three-man group of leaders; included were the manager, the Party secretary and the union head. Among the three, the manager had the absolute authority to make decisions. Yet he/she was to seek input and cooperation from the other two before making decisions or taking action. In the event that the three

failed to reach a consensus, the manager had the final say, provided that he should report the disagreement to their superiors in upper-level Communist Party agencies.

The major functions of the trade union, according to Liu's proposal, were to assist in the improvement of the organization and management of the enterprise, to secure workers' well-being, and to mobilize them for better productivity. Liu's proposal was ratified by the People's Congress of the Soviet Republic of China in April, 1934, and included in the Managerial Rules of the Soviet-State-Owned Enterprises. The Organizational Bureau of the Party Central Committee reaffirmed the motion in the Operational Guidance of Party Organizations in Soviet State Enterprises that it issued ten days later.¹⁰ These were the earliest documents regarding enterprise management in the Chinese Communist movement. They did seem to create enduring contention over how the Party organization and management should interact in enterprises. Literature on their effect in redressing the chaos in enterprise operation was extremely scarce.

COORDINATING THE AUTHORITY OF THE PARTY, THE UNION, AND MANAGEMENT

Initial Conflicts

If the major problem of state enterprises in China's Soviet Areas during the ten-year Civil War (1927-1937) was the absence of accountability, during the war with Japan (1937-1945) problems emerged in the relationship between the Party officials, managerial staff, and the union heads. As the areas under Communist control expanded and the public industrial sector grew, these three entities in the enterprise system gradually matured. Each one had a distinctive agenda and a

three-way competition developed for the leadership of enterprise management. The Party committee and the union in many enterprises pledged to facilitate production. Yet they made little effort to develop feasible procedures. Their day-to-day work instead involved collecting membership fees and holding group meetings. Some union leaders, moreover, even encouraged workers to extract pay raises from management by staging slow-downs, similar to what they had done under private enterprise owners.

This situation convinced the management sector that both the Party and union were superfluous, and quite a few managers thus blocked their access to information concerning production. Other than the Party committee and the union, there were, however, no other effective check-and-balance mechanisms on the shop floor. Management was subject to little surveillance when these groups were estranged from the decision-making and production processes. The situation also posed a problem with respect to workers' participation in the supervision of management. As a result, corruption among managerial staff became serious, which greatly antagonized workers.¹¹

Mao's Response

In view of this situation, Mao appealed, in December, 1942, to senior leaders from the base areas of the Shanxi-Gansu-Ningxia Border Region (the location of the Communist headquarters) to look into the organization of enterprises, democratize their management, and tighten discipline on the shop floor.¹² He proposed to strengthen the three-in-one committee and to focus its attention on improving product quantity and quality and on minimizing costs. In early 1943, the formula for

a unified leadership of state enterprises was defined in substantial detail at a conference held in the Border Region, called by the central government of the Communist-controlled areas.¹³ In its relationship with higher authorities, the unified leadership would be placed under the supervision of only one government agency. Within the three-in-one committee, the manager would represent the State and assume full responsibility in all production-related affairs. The Party organization and the union were to concern themselves with only one mission, which was to assist management in fulfilling production quotas. Their political activities were, accordingly, to center on improving workers' dedication. The rationale for emphasizing the central position of management was simple and straightforward: fighting a war required timely and ample material supplies.

Yet the argument against patriarchal practice¹⁴ of management staff and for democratic management in enterprises was heard at this same conference. The pressing demand of the war, however, limited discussion of this issue to pleas to managers to be more concerned with workers' well-being and to be more attentive to input from the Party organization, the union, and workers. To coordinate the Party committee, the union and management, the same conference also made an attempt to clarify their relationship.¹⁵ Specifically, both the Party secretary and the union head were to be assigned certain administrative responsibilities and were to attend staff meetings so as to be informed of the state of production and administration. Managers, being Party members, were to commit themselves to living up to their obligations to the Party organization and observing its regulations. The Party committee, on the other hand, was not to intrude upon the manager's

jurisdiction. In the event that the two divisions failed to reach agreement through negotiation, the manager was designated the final say if the issue of concern was production- or administration-related. Otherwise, the Party secretary's decision was to be observed. In both cases their superior agency was to be notified. Yet what were missing in both the decisions on the three-in-one committee and in the pleas for strengthening democratic management were the definition of "production-related" issues and "political" ones in the enterprise, and statements delimiting the boundary between the manager's responsibility as a manager and obligations as a Party member. These deficiencies, as might be expected, promised further controversy over enterprise management.

SOCIALIST REORIENTATION OF APPROPRIATED ENTERPRISES

Initial Lack of Guidance

Problems caused by ambiguous definitions of the Party's leadership and manager's authority in enterprises attracted more attention during the War of Liberation period (1945-1949). As their sweeping victories occurred across the nation, Chinese Communists appropriated an increasing number of enterprises and converted them to public ownership. Management immediately became problematic since the Party organization did not have enough experienced personnel to form the three-in-one leadership on the shop floor, as suggested by Mao in 1943. Consequently, most enterprises were in a chaotic state.

As an expediency measure, the central leadership decided to install a personal responsibility system in these enterprises, based on financial rewards or punishment. Routine inspections were also enforced by superior Party agencies to

monitor production plans, accounting systems, marketing procedures, and labor force makeup in relation to managerial capability and technical proficiency.¹⁶ These procedures were sufficient for Chinese communists to obtain adequate material supply to ensure their ultimate triumph in their campaign for state power, and to prepare for taking over control of the economic infrastructure, the industrial sector in particular.

Instilling a Socialist Orientation

Yet for these enterprises to comply with socialist orientation, more was required than to straighten out production procedures and improve discipline on the shop floor. One major challenge was to fundamentally change the image of the working class so that it could be accepted by society at-large as the dominant force in state-owned enterprises. Such a change would necessitate a political transformation of the social environment of the work locale. Most of these newly nationalized enterprises were feudalistic in nature, rather than capitalist. They were often little better than gangs, controlled by a dominating "master." A pressing need in transforming them was to have worker-activists empowered so that they could become involved in management. Yet the newly recruited top managerial staff on the shop floor made this formidable undertaking even more difficult. Most of them were veterans of the Communist army and were more used to giving orders than sharing authority. Thus "the working class is the ruling class" remained largely a slogan.

To speed up the transformation process, the Central authorities of the Party instructed in May, 1946, that enterprises with a workers' organization already in

existence should establish a management committee.¹⁷ This board of leaders should embody not only managerial staff and union leaders but also workers' representatives, and should replace old foremen. The main tasks of the committee were to "reduce costs, increase output, and see that both public and individual interests are benefitted."¹⁸ In enterprises where the Communist government was not ready to immediately take over, workers were encouraged to become organized to participate in management, and old managerial personnel were urged to trust their competence.¹⁹

Three forms of democratic management were also recommended in the same "instruction." First, an enterprise could operate under a management committee consisting of the manager (as the head), technicians and administrative staff, and an equal number of workers' representatives. Or, firms with a payroll of more than 500 people might set up a workers' congress to review production plans, supervise administrative personnel and take care of issues concerning their employees' work and life. Lastly, enterprises could also choose to hold regular group meetings for workers to voice their concerns and suggestions. These three proposed forms were the kernel of the Resolution of the Immediate Tasks of the Labor Movement in China adopted by the Sixth National Laborers' Congress in August, 1948, and became the by laws of enterprise operations.²⁰

The emphasis on collective leadership was a common feature of the three forms of management. The manager was acknowledged as the head of management in each, but it was the "committee," the "congress," or the "group," that was supposed to make decisions in the enterprise. It was true that the

manager was authorized to discontinue the implementation of a decision made by the majority of the committee if he/she judged it necessary. Such a margin for manoeuvring by the manager, however, required well-defined rules and procedures for each party within the collective leadership. Yet they were lacking, so it was very difficult for managers to exercise their right. The reason for the deficiency was the same chronic problem: no decision had been made as to who should have the final say in a state enterprise, workers through the Party organization, or professionals through management. Thus what the transformation managed to accomplish was to confirm collective leadership and weaken manager's power.

DIFFERENT APPROACHES TO ENTERPRISE MANAGEMENT: NORTH CHINA VERSUS NORTHEAST CHINA

To implement the aforementioned Resolution, local governments in "liberated areas" proposed various formulas for enterprise management. Among them, the versions developed by North China and Northeast China were best known. These two approaches, which emphasized the collective leadership of the Party committee and the single manager responsibility system, respectively, soon became the focus of nationwide debates on the appropriate mode of enterprise management. Competition between the two approaches persisted and swayed the development of state firms for nearly thirty years. The issue of the role of the enterprise in a socialist economy was at the center of the leadership controversy. The debates in the Mao era did not yield an answer to the question but have lingered into the reform period and continued to influence management policies and practices.

The North China Approach

In August, 1949, the government of North China took the lead in publicizing its own Regulations for implementing the Resolution. It was one of but a few relatively comprehensive documents in the short industrial management history of Chinese Communism.²¹ The Regulations directed that all state enterprises should have a management committee composed of the manager, the assistant manager, the chief engineer, the union head, and workers' representatives. Approval from superiors (usually a government agency) was necessary for any other staff members to join the committee. Representatives elected by workers were to take half the committee seats. The size could vary from five to seventeen members, depending on the size of the enterprise. The management committee was designated as the administrative body responsible to one or more superior government agencies. Its principal assignment was to make feasible production and management decisions and fulfill state-set quotas. Its decisions were to be issued and implemented in the form of manager's mandates. In the event that the manager was convinced that a resolution of the majority of the committee obstructed the interests of the enterprise or was inconsistent with its superior's instructions, he/she was authorized to suspend its implementation, provided the superior was also contacted for further instructions. Yet, if the majority of the committee believed that the manager's overrule was inappropriate, or his/her report to the superior agency was inadequate, they were entitled to lodge their appeal to the same agency. Meanwhile, they should follow the manager's decision unless or until they were notified by their arbitrator to do otherwise. The Regulations also recommended that the

management committee set up a standing committee to oversee the implementation of its resolutions and to take care of routines.

The Regulations further enunciated that any enterprise with more than two hundred workers was to organize a workers' congress. An alternative for those with fewer employees was to convene monthly meetings of all workers. Both the congress and the general meetings were to enable management to brief workers on production, solicit their feedback and suggestions, and heed their evaluation of the performance of the management committee. Yet, for any resolution reached by workers to become legally effective, it had to be approved by management via the manager's mandate. The relationship between the workers' congress and the union was defined as identical to that between the legislature and its executive body. The union was not eligible to modify or deviate from resolutions of the congress, unless its superior instructed it to operate otherwise.

The Northeast China Approach

While North China was experimenting with its formula of management, a similar set of regulations was generated by the government of Northeast China. It was also intended to integrate the mechanism of collective leadership with individual responsibility and workers' involvement.²² Yet there existed a considerable difference between the two in the magnitude of the manager's authority within the management committee.

In North China, greater significance was placed on collective leadership, and managers were subject to more restrictions. Although they were granted the right to suspend execution of resolutions, the liability for the unintended consequences of

their actions and the required justification of their decisions by their superiors discouraged them from availing themselves of every opportunity of exercising their privilege. Even their authorized autonomy to act in emergencies was circumscribed by the rule that a subsequent endorsement from the management committee was required.

The Northeast China regulations, on the other hand, contained greater ambiguity in the division of power within the administrative body. A manager-centered system was preferred, in which the manager appointed by the state was designated as the "plenipotentiary" of the enterprise and the "natural chairman" of its leading body with the "final say to all major issues." While the regulations also acknowledged that the management committee was the highest organ of power in order to exercise unified leadership and that the manager had to "refer major issues to the committee and the workers' congress for deliberation and to implement the latter's decisions," the Northeast approach favored managers over collective leadership.²³

Whether because the revolutionary war had not yet come to an end, or because the administration of whole-people-owned enterprises was still in the process of formation, the Communist leadership did not make much effort to unify the different formulas of management. North China, Northeast China, and other liberated areas were basically left alone to pursue their respective approaches. As these versions of the management-Party-union combinations competed, however, an important era in the development of enterprise management under the Communist rule was about to conclude. In the period between 1930 and 1949, Chinese

Communists had managed to cultivate, through government policies, administrative resolutions, and political forums, a public awareness of the necessity of having the Party organization and the trade union on board to oversee the fulfillment of enterprises' obligations mandated by whole-people ownership. Yet in neither the documents nor the conferences discussed above had they been able to define and coordinate production-related and political matters on the factory floor or the functions of the Party committee and the manager. This failure had contributed to the existence of different forms of management in the liberated areas but had not invited the appearance of an organizational policy or managerial mechanism that could integrate the productive efficiency and political accountability of the enterprise, which also blended managers' technical know-how with Party officials' political consciousness. As will be demonstrated in the ensuing sections, this problem continued to haunt Chinese Communists in the post-revolution era, causing intense conflicts to sometimes develop.

POST-LIBERATION ATTEMPTS AT UNIFYING ENTERPRISE MANAGEMENT: 1949–1956

RESTORATION OF PRODUCTION TO NORMAL LEVELS

October 1, 1949 marked the end of the 28-year armed struggle of the Chinese Communist Party and the official beginning of its rule in China. The Communist leadership was, however, immediately challenged by another formidable mission: reconstructing the war-ruptured economic infrastructure and transforming its inherited socio-political institutions.²⁴ Its first target was to "restore agricultural and industrial production to pre-1949 peak levels" by the end of 1952.²⁵ It was

critical for the new government to consolidate its newly acquired power. The monumental mission first involved clearing up the economic and financial mess.

Uncontrolled inflation in the last few years of the Chiang Kai-shek regime reached levels seldom seen in world history. Between 1937 and 1949, the Nationalist Government recklessly issued banknotes in order to finance its wars with domestic Communists and the Japanese, and to cover administration expenditures. As a result, from "August 1945 until the late summer of 1948 prices rose some twenty-five hundred times..." In 1949, just before the Communists triumphed,

the price index took off and disappeared into the great beyond. From about September 1947 to the fall of 1948 the value of the *yuan* in relation to the U.S. dollar dropped from 60 thousand *yuan* to the dollar to 20 million *yuan* to the dollar.²⁶

The rampant inflation and economic crisis devastated industrial production, and many factories could not avoid bankruptcy. Those that survived "operated with much idle capacity and rarely tried to expand operation." During the last decade of the Nationalist government's tenure on mainland China, few new domestic industrial enterprises had been initiated. The ever-increasing unavailability of factor inputs drastically cut back product lines. Imports needed for industrial production were beyond reach "as China's currency approached zero value in international markets."²⁷ The already limited industrial production was devastated. Chinese Communists thus embarked on their industrial development program worse than empty-handed since they inherited economic plight and a large population.²⁸

Yet the new regime met its first deadline for reconstruction in 1952 by the restoring of agricultural and industrial production to pre-1949 peak levels. It is generally agreed that "the restoration of peace, national unity, and political order for

the first time in over two decades" was the most important reason for this success.

Another tangible factor was that the Communist leadership made tactical concessions to Chinese capitalists and industrialists, allowing them to share profits with the state, collect interest on the money value of their assets from state banks, and enjoy high salaries. This policy of redemption convinced many of them to stay in China and cooperate with the new government.²⁹

While devoted itself to economic rehabilitation, the leadership also accelerated the speed of nationalization of foreign and bureaucratic-capitalist enterprises. Between 1949 and 1952, the state-controlled portion of industrial production increased from 44 to 67 percent. By the last quarter of 1952,

all railways, 80 percent of heavy and 60 percent of light industry were state operated, as was 60 percent of domestic shipping. Also, the government controlled 90 percent of all loans and deposits through the People's Bank; state trading companies handled 90 percent of foreign trade, half of the wholesale trade, and about 30 percent of the retail trade.³⁰

SOURCES OF MANAGERIAL STAFF

With the number of state enterprises growing, the Communist Party came under greater pressure to appoint a matching number of managerial staff. Yet it had only a small pool of such personnel at its disposal. The professional managers and bureaucrats inherited from the old regime could not be immediately assigned to enterprises or government agencies supervising the public industrial sector. A political reorientation was believed necessary before they could conform with the socialist framework. Yet their expertise was in desperate need by the new government for managing industry and the country as a whole. As a result, the unity-criticism policy was adopted in the employment of these people. It first

acknowledged that, when working for the Nationalist government or foreign or bureaucratic-capitalist enterprises, these professionals had also been exploited and thus had the potential and even desire to join the working class in developing China's own industry. They were therefore to be encouraged to use their professional knowledge; this was imperative for the working class to accomplish its mission. Then the negative sides of their profile were stated. The most deleterious were their lack of courage and commitment professed by the working class, and their aptitude for fiscal and political speculation and even destruction. The conclusion was reached that they needed to be supervised by the Party organization and workers, but they could be employed.³¹

More favored sources of managerial personnel were the departments and agencies of the Communist Party and the People's Liberation Army. Candidates from these organizations had little managerial experience yet they were thought to be politically reliable and organizationally instrumental to the consolidation of a unified Communist leadership. This was because government functions above the enterprise were also being executed by personnel from the Party and the army. Moreover, since the Army had mustered the bulk of the Party recruits and also since it had been engaged in industrial and agricultural production to support itself in the war against the Japanese and the Nationalist army, its officers were considered a natural source of managers and administrators. In addition, soldiers as well as officers had been involved in solicitation for public support in and outside Communist base areas, and they were thus credited with knowledge of organization.³²

Skilled and literate workers in enterprises formed a third source of managerial personnel. As the new order emphasized worker-centered values on the shop floor, many of them were quickly promoted to leading positions, despite the fact that they might have had no professional training in management.³³ College graduates were also recruited as managers. Although their liberal minds might prove troublesome to the government,

these engineers, social scientists and economists trained by Western methods were to be crucial to the educational, political, and economic establishment after 1949, when trained technical manpower was at a premium.³⁴

THE COLLECTIVE LEADERSHIP SYSTEM PREVAILS, TEMPORARILY

During the 1949–56 period, development of state enterprise management continued to be pursued through either the collective leadership approach or the single-manager responsibility system developed in North and Northeast China respectively. The national leadership, however, apparently preferred the former as it was endorsed in the Common Program— the provisional constitution of the nation that was adopted by the Chinese People's Political Consultative Conference on September 29, 1949.³⁵ In February, 1950, the Finance and Economics Commission under the State Administrative Council issued a directive requesting all enterprises to follow the Regulations ratified by the People's Government of North China in 1949 as the by-laws for establishing the management committee and the workers' congress.³⁶

Yet enterprises under a "proletariate dictatorship" were never pure economic entities, and contention hence persisted over how they should be managed in order to fulfill their obligations to the working class and the socialist state. Heated

debates on this issue also extended to North China in 1951, as industrial production was returning to normal.³⁷ The focus was on who would better fulfill the political and economic obligations of enterprises—the manager or the Party organization. Some in the local government and on the shop floor insisted that managers should exercise full leadership over enterprises though they should also consciously invite workers to participate and regularly report to the Party committee. Yet many others faulted this argument for its over accentuation of managers' personal importance in production. They complained that quite a few managers had already defied the Party committee and superior governmental agencies in their work and showed little respect for workers. Granting them more authority would, maintained the critics, mean an encouragement of this conceited and imperious behavior. Collective leadership of the Party committee would, they asserted, redress this problem and secure the political transformation of enterprises on the socialist track.

The appeal for collective leadership eventually won the upper hand. This round of debates in North China ended with the conclusion that the major challenge facing the enterprise was not that the manager's authority was not in proportion with his/her responsibility. It was, rather, the problem that economic development was still overemphasized at the expense of political orientation, and workers remained outside the decision-making and management process. Based on this conclusion, the regional government reenforced the collective leadership system of the Party committee in state firms across North China.

THE SINGLE MANAGER RESPONSIBILITY SYSTEM PERSISTS, BUT REMAINS CONTROVERSIAL

In the early post-revolution years, China was profoundly influenced by the Soviet Union. This policy of "leaning on one side" was chosen partly because of the commitment to Marxism-Leninism and partly because of the fact that the Soviet Union was virtually the only source of political and economic support accessible to the new People's Republic.³⁸ The Soviet influence could be identified in China's long- and short-term plans for national economic development and the make-up of its industrial sector, and in plans for management of enterprises as well. Whether or not it was because of geographic contiguity, and thus more contact, Northeast China manifested more Soviet influence than other districts. The manager responsibility system practiced in the public industrial sector of Northeast China, for example, resembled the Soviet one-man management system.³⁹

Unlike their colleagues in North China, Party officials in the Northeast Administrative Region admired the manager responsibility system. The Regulations on Party's Leadership in State-Owned Enterprises was issued in May, 1951. It was stated there that scale production in modern society necessitated a central figure in the enterprise to make timely decisions, to efficiently and effectively coordinate factors of production, and to be accountable for problems. They further asserted that enterprises were ready for the installation of the single manager responsibility system as these had already undergone the political transformation and resumed normal production. Finally, they affirmed that newly established government agencies were able to supervise and monitor enterprise performances. All these factors, promised Party officials in Northeast China, in combination with the

expertise imparted by Soviet instructors, would ensure the political soundness of the manager one-man responsibility system.⁴⁰

The document stipulated in explicit terms that the manager took full charge of production and personnel affairs. Workers' participation in decision making and management was to be effected through their representatives in the management committee headed by the manager. The manager was authorized to regularly call committee meetings to deliberate production plans, implementation measures, personnel appointments and dismissals, and workers' well-being. The Party committee's function, on the other hand, was only vaguely defined. It was required to supervise management and coordinate the Party, management, the trade union, the Youth League, and women's organization on the shop floor, but it was not really informed as to how to undertake the task. However, the Regulations did specifically instruct the Party committee not to infringe upon management's jurisdiction in conducting its business.⁴¹ With these terms the Regulations, in fact, cancelled the Party Committee's function in management.

With China looking more and more to Soviet precedents, the single manager responsibility system also gained credence with the central government. Its ramification was, however, confined to the Northeast until 1954 (three years later), when the regional government of North China, among others, decided to shift to this system. The North China excuse for the switch was that the collective leadership of the Party organization was a necessary but transitional form of management. Its mission had now been accomplished as, through its efforts, socialist managerial mechanisms had been established in most enterprises and the political orientation of

management and technical staff had been attuned to the Marxist persuasion. The North China officials also claimed that the collective leadership system was not flawless as the obscure boundaries between jurisdictions resulted in several commanders competing for authority and shirking responsibility in production and personnel affairs. It should thus be replaced by the single manager responsibility system as a better way of bringing in an accountable leadership with explicitly defined authorities and responsibilities.⁴²

When the decision by North China was submitted to the central leadership for approval, the latter not only signaled the green light but also transmitted the document across the country for emulation.⁴³ This alteration proved convenient for Soviet consultants working in Chinese enterprises since they "had been in the habit of giving commands on the spot without going through formal channels. With individual authority clearly defined, they knew precisely whom to contact in order to implement a command."⁴⁴

The reception of the shift, however, did not sweep easily across the country. The Party Central Committee conducted a nationwide survey in June, 1955, and found that very few enterprises were operating under the responsibility system in its real sense. The essential issue underlying the reluctance to change was that the status and the role of the Party organization in the enterprise were not explicitly defined. A clear definition of the relationship between the one-man management and the collective leadership system practiced within the Party organization was also lacking. As a result, managers, most of whom were Party members, were found overly cautious in their work for fear that they would violate the

organizational principle of the Party, which they had vowed to observe. The Party organization was also solicitous about whether it trespassed the manager's jurisdiction. Misgivings arose on both sides, each trying to play safe by not executing its functions. Production became the victim of indecision.⁴⁵

Around the same time, the Industrial Office of the Secretariat of the Party Central Committee called a meeting to discuss this problem.⁴⁶ Most of the participants were from the Party committees of 17 provinces and cities where industrial enterprises were clustered. Also present were managers and Party secretaries from selected enterprises. Contrary to expectations, however, the conference did not decide in favor of the management transition. It moreover attributed the chaos in industrial production to the single person responsibility system, complaining that managers did not have the expertise to exercise their authority and that they ignored political education and the supervision of the Party and workers. Many at the conference suggested placing the manager responsibility system under the leadership of the Party committee. This revised system was expected to confine the authority of managers and retard their egocentricity. It was also meant to send out the message that the Party organization should not merely serve as a platform for airing of different opinions on production and management, but should be the only commander in the enterprise.

This suggestion was, however, confronted by strong opposition from other delegates at the conference. They retorted that a planned economy and large-scale industrial production required a top-down system with an explicit division of responsibility, and they insisted that the collective leadership system could not

provide it. They claimed that the chaos in industrial production only indicated that the system of collective leadership was still haunting the enterprise. Operating under its shadow, they argued, managers could not easily stand up to their responsibilities. Their counter-suggestion stated that the Party organization should continue to supervise management only in regard to its political orientation. Moreover, its suggestions on management and production were not to be compulsory, if the manager disagreed with them, although he/she should report the disparity to a superior agency.

As an attempt at compromise, delegates from the Northeast suggested changing the wording of the counter-suggestion. They averred that the two systems were meant for organizations of different natures. While the collective leadership system best suited the administration of the Party organization, the single manager responsibility system went with management of production activities. They maintained that the single manager responsibility system should be credited and promoted for its contribution to the economic development especially in the Northeast. Yet the Party's supervisory function on the shop floor should continue to be stressed. The Party committee should also be permitted to discuss any issues in relation to management and production that it believed necessary. As a Party member, the manager should submit to decisions made by the Party organization if he/she considered them appropriate.

By flattering the concept of the Party's absolute leadership at the forum, the Northeast delegates sought to preserve management's authority and escape political controversy over the issue. Their compromise position, however, did not clear up the confusion over the leadership issue in state enterprises. As the originator of the

single manager responsibility system, their vague description of interactions between managers and the Party organization in fact added to the controversy over the dynamics of Party supervision in the enterprise and managerial autonomy in decisions of production and management. Unable to reach a consensus, the Industrial Office could not but suggest that each province continue with its present management system and promised to conduct follow-up on-the-spot investigations for further decisions.

The Party Central Committee accepted the report of the meeting and signed the approval for its dispatch to all provinces. Attached to the report was its remark that the Party's leadership and the single manager responsibility system must on no account be viewed as either-or choices. Its explanation stated that while the manager responsibility system was necessary for efficient production, institutionalized political work and supervision were indispensable for the development of the enterprise. Economics and politics, hence, should not be divorced from one another.⁴⁷ Yet the leadership did not elaborate on the division and coordination of labor between the Party's leadership and manager's command. Nor did it make any effort to clarify the underlying question of the relationship between the productive efficiency and political orientation of an enterprise under socialism. The consequence of the ambiguity found in the official position on the leadership issue was that detailed by-laws did not surface for either the Party committee or management to play their roles and to coordinate their functions in the enterprise. The turbulence that was to ensue in China's political arena prolonged the controversy.

TWO DECADES OF "CLASS STRUGGLE" HINDER A SOLUTION

THE SINGLE MANAGER SYSTEM IS DENOUNCED

In 1954, Gao Gang, a Politburo member with a strong power base in the Northeast, was purged for reportedly forming a conspiracy against the Party Central Committee.⁴⁸ The single manager responsibility system was implied as one of his "anti-Party crimes," and campaigns against it became explicit. Yet despite the power struggle at the top, the Party organization and the manager still peacefully co-existed in enterprises after this. Although their respective jurisdictions and relationship were never clearly laid out, Party cadres were reported to have played a key role in mobilizing, organizing, and motivating personnel to respond effectively to the environmental changes and programs introduced with the aim of achieving greater managerial effectiveness and rapid industrial progress. They succeeded in creating a substantially more favorable attitude toward technical, managerial, and economic change at the enterprise level than that which had existed in the past. The growing corps of modern managers and experts gave balance to this revolution of change by focusing on operational feasibility, technical integration, and formal organization.⁴⁹

In 1956, China completed its "socialist transformation", or nationalization, of private enterprises and business. The issue of effective economic administration for accelerating development thus became more acute. Yet successive international political crises in the socialist camp during the same year (the de-Stalinization by the 20th Congress of the Soviet Communist Party and the anti-Communist incidents in Poland and Hungary) convinced the Chinese Communists that they should not relax

their vigilance against potential internal threats to their political control. It was therefore not surprising that they approached the issue of economic development through consolidation of their absolute leadership in all production organizations, especially state enterprises.

Moreover, as political differences between China and the Soviet Union widened and were brought into the open by the latter's 20th Congress, the Soviet model of enterprise management also fell into disfavor. Mao's sharp criticism of the propensity in China to indiscriminately imitate the Soviets in conducting state affairs intensified the denunciation of the single manager responsibility system.⁵⁰ At its Eighth National Congress, the Chinese Party Central Committee made it clear that managers in state enterprises should be submissive towards the unified leadership of the Party organization. The Congress criticized the single manager responsibility system for attempting to obliterate Party influence in the enterprise through "unduly crowning" the manager as the leader plenipotentiary. This was alleged to have cultivated among many workers misconceptions of the Communist Party and its leadership. The system was also chided for having fomented authoritarian attitudes in a number of managers.⁵¹

PRODUCTION FALLS DURING THE "GREAT LEAP FORWARD"

The amputated manager responsibility system and the not yet fully empowered Party committee, however, did not have an opportunity to work their way into productive interactions. The ensuing "anti-Rightist" movement that commenced in the summer of 1957 accelerated the centralization of power into the Party organization.⁵² Although the intended target of the movement was the

intelligensia, suspicion of the leadership about intellectuals was also extended down to professionals and technocrats. This accelerated the transfer of managerial authority from those with technical know-how to those with "high political consciousness," and the Party committee's direct control over production was consolidated.

The anti-Rightist movement was immediately followed by the "Great Leap Forward" (1958). In industry, this was characterized by "extensive administrative decentralization and the establishment of numerous small-scale enterprises employing mainly local resources and indigenous techniques of production."⁵³ Decentralization, however, was meant only to redivide the decision-making power and administrative responsibilities among different strata of the Party bureaucracy. The purpose was to further ensure that the Party organization would have the absolute power in allocating physical and human resources, especially appointments to and removals from management.⁵⁴ Also, since the Leap was intended to accelerate the momentum of economic development through nonmaterial incentives, it was only logical that the Party organization should assume command in state-owned enterprises. Moreover, the Leap in industry attached great emphasis on workers' involvement in management and hence rendered irrelevant the manager responsibility system with monocratic power embodied in one person through hierarchical rules and regulations.

In April, 1958, the central leadership approved and transmitted to all enterprises the report submitted by the Party committee of Heilongjiang Province in the Northeast on managerial staff participation in physical labor and on workers'

involvement in management. This was an early attempt to institutionalize participatory management and to avoid alienating the working class.⁵⁵ The leadership also proposed detailed procedures and apparatus to enforce the two-way participatory management. Specifically, the workers' congress was to review and rectify plans made by management for production, finance, technological improvement, labor arrangement, and wages. The congress would also make decisions on welfare arrangement including medical insurance, labor safety, reward funds to model employees and union expenses. Moreover, it was entitled to request superior agencies to recall personnel in leading managerial positions and to recommend replacements for them. If the congress disagreed on a decision of a superior agency, it was eligible to voice its differences and make suggestions for alternatives, provided that the decision should be observed if the latter insisted.⁵⁶

The "Great Leap Forward," however, did not bring the anticipated miracle to the national economy. On the contrary, the economy was severely crippled by the enormous waste resulting from the populace being rushed blindly into low-quality industrial production. In view of the problems and the potentially disastrous long-term effects, Mao and his associates endeavored to redress the situation from late 1958 to the summer of 1959. Yet Mao was irritated by the direct and trenchant critique of those who opposed the Leap. He labelled the critics an "anti-Party clique" and analogized their challenge as "petty-bourgeois fanaticism." With his support, the central leadership then launched the movement of "anti-Rightist opportunists within the Party."⁵⁷ This contention over development approach also elevated the criticism of the single manager system to a higher plain of principle.

Charges levelled against it went from "dogmatically echoing the Soviet-style management" to being "Rightist opportunist." Discussions and debates on issue were also represented as struggles between the "proletariate and the capitalist headquarters."⁵⁸

The issuing of the "Charter of the Anshan Iron and Steel Works" in March, 1960, added fuel to the indictment against the single manager system. The Charter was a short paragraph of Mao's written remarks on a report by the Party committee of Anshan City on technical innovations in industry. In his comments, Mao took issue with those who maintained that modern technology had fossilized the Chinese Communists' magic weapon, i.e., the mass line, and that the Soviet single manager system was indispensable in developing modern industry. He praised the management of the Anshan Iron and Steel Works highly, noting the enterprise epitomized prioritizing political orientation over profits, adhered to the leadership of the Communist Party over production and management, had managerial personnel participating in production labor and had workers involved in management, maintained a cooperative relationship between cadres, workers and technicians, and encouraged technical innovation and revolution. This 141-character Charter was esteemed as further criticism of the single manager responsibility system and a step toward the institutionalization of participatory management led by the Party.⁵⁹

With the help of a mass "study" movement and the easy-to-remember abbreviation—"two participations, one reform, three-way combination"—the Charter was soon popularized in the state industrial sector and dug roots in the hearts of the general public. This finally silenced the argument for the single

manager responsibility system. In the rest of the Mao era, managers were never made the central commander of enterprises, although they were occasionally called to pull the industrial production out of stagnation.

MANAGERS ARE BESEECHED TO RESCUE INDUSTRIAL PRODUCTION

Franz Schurmann accurately summarized the chaos in production during this time when he said that the "Great Leap Forward (1958–1960) had industrial drive, but practically no industrial management." Adding to the problem, the "discontinuance of Soviet aid made scarce capital equipment even scarcer, and crop failure reduced the supply of raw materials for industry." As a result, many factories closed or drastically cut production.⁶⁰ Confronted with severe economic stagnation and public discontent with sliding living standards, the leadership decided to return to professionals for help. Managers were once again accorded authority and expected to pull state-owned enterprises out of their dire straits.

In September, 1961, the Party Central Committee issued the "Regulations on the Work of State-Owned Enterprises."⁶¹ While it reaffirmed the dominant position of the Party organization in the enterprise, the 70-article document explicitly stated that the revised system was different from the earlier Party management. The major distinction was claimed to lie in the reestablishment of the manager's command in production, finance, and allocation of material and human resources. Similar authority was also to be extended to managerial personnel heading subdivisions in enterprises. Meanwhile, the Party committee was urged to stand by managerial staff when they exercised their power and assumed their functions.

The greater operational power given to managers was part of the government's endeavor to revive the national economy from the disastrous setbacks caused by the Great Leap and the Soviet pull-out. This readjustment package favored a shift from political accountability to profit volume as the main assessment criterion of production. The state even set fixed profit targets for enterprises and credited above-quota profits with additional monetary or material rewards. This more liberal policy yielded an average growth of 17% in the gross output value of industry between 1963 and 1965.⁶² As the first relatively comprehensive by-law for state-owned enterprises in Chinese Communist history, the "Regulations" made an important contribution to this development.

THE "CULTURAL REVOLUTION" TOTALLY NEGATES THE SINGLE MANAGER SYSTEM

However, just as China's economic situation took a favorable turn, its political pendulum began to swing back to "class struggle." In the summer of 1966, the "Great Proletariat Cultural Revolution" engulfed the whole nation. In the turmoil that followed, the "Regulations" issued in 1961 were denounced as a "sinister program for restoring capitalism in China." Being its immediate "executors," managers were also thrown out of office. Yet this time neither members of the Party committee nor those in the workers' congress escaped the purge since the "revolution" included all authorities as its targets. Meanwhile, the growth of self-sponsored "revolutionary mass organizations" mushroomed in most enterprises and sought control. Since most of these factions came together impulsively during a moment of "revolutionary zeal" or were motivated by shared grievances toward a

former boss or colleague, they demonstrated little or no concern about production, let alone managerial proficiency. Moreover, while wrestling for power they could not come to terms with each another on reorganizing management in enterprises long after they "had overthrown" the old one. The wide-spread chaos on the shop floor in combination with the nationwide economic stagnation brought the inevitable result: the output value of industry plunged 13.8 percent in 1967 and an additional 5 percent in 1968.⁶³

Though mass organizations were still able to seize the symbols of power, they had surely proved "unable to effectively exercise its substance."⁶⁴ To pull the afflicted economy out of crisis and restore social order, the central leadership had to dampen the "enthusiasm" of the mass organizations. It denounced the slogan "doubt and overthrow all authorities" and instructed a "revolutionary committee" to be established in all organizations and at all levels.⁶⁵ By August, 1968, every state enterprise was harnessed by such a committee; made up of workers, army men, and reinstated Party officials and managerial staff. Such a combination reflected Mao's arguments that not all Party officials deviated from socialism,⁶⁶ and that the People's Liberation Army should be suited to the role of organizing civilians.⁶⁷ A more accurate explanation for the military involvement may be that the army was "the only state organ left capable of acting in a decisive way" and of restoring political authority in places where rival mass organizations had even resorted to violence.⁶⁸

Outwardly, the combination of committee members resembled the collective management of army men, workers, technicians, and ex-proprietors who had ruled

enterprises at the outset of the Communist regime. They differed significantly, however, since this committee did not have on its agenda the same priority to rehabilitate production of industrial enterprises as had existed after the civil war. Therefore, while technicians and workers in the previous collective management had been given free rein to utilize their professional knowledge and were blessed by the military and the Party representatives, the new combination was a politically oriented organization. Within the establishment, army men were entrusted with the task of judging which leaders and mass organizations were "truly revolutionary".⁶⁹ The worker representatives were selected according to their performance in "class struggle." The reinstated managerial and technical staff were fully aware of their probational status and were thus too prudent and reluctant to "show off" their professional expertise. In the final analysis, the revolutionary committee, as its name may suggest, did not exhibit much intention or competence to halt the industrial setback caused by the "Cultural Revolution."

It was not until the death of Mao's official successor, Marshal Lin Biao, in 1971, that China began to make an effort to restore political stability and economic order. In the campaign against Lin Biao and the ultra-Leftism that he allegedly represented, the central leadership began to reinstate Party and government officials who had been purged during the Cultural Revolution. In enterprises, Party committees were once again placed in the leading position and the Party's absolute leadership was reemphasized. Since the influence of the Leftist force was still reflected in national politics, class struggle remained the priority on the agenda of Party committees, and production was secondary.

The Leftist circle in the central leadership was finally liquidated after Mao passed away in 1976. Yet a more liberal economic policy did not immediately make its appearance. The keynote issue for the Party's Eleventh Congress, held in August, 1977, continued to be bringing order across the land through class struggle. In his closing address, however, Deng Xiaoping, the new Secretary General of the Party, did call upon it to do some real work.⁷⁰ These remarks implied that debates on politics and ideology should abate so as to make room for economic development. This appeal insinuated the economic restructuring which commenced one year later. Deng, however, left out the question of whether and how China's social-political order should be adapted to the economic reforms being contemplated. This foreshadowed contention between the intended market-oriented economy and the perpetuated socialist institutions, and the resultant confusion and agony that state enterprises were destined to experience.

SUMMATION

Chinese Communists under Mao's leadership acknowledged that China lacked "the Marxian-defined social and material preconditions for socialism."⁷¹ Nevertheless, they made an exhaustive effort to create a socialist society. This required that they simultaneously had to build the necessary economic foundation. The two endeavors—one political, one economic—did not however seem complementary or even compatible with one another. The fact that Marxist doctrine did not address how an economically underdeveloped country should coordinate revolution and production for a socialist attempt created enormous problems and

dilemmas for Chinese Communists. Their search for an effective approach to industrial progress since the 1930s is an example of how difficult this can be.

Enterprises, initially Soviet-style and later state-run, have played a unique and crucial role in Chinese socialist society. On the one hand, they constituted an indispensable factor in the Communist revolution and the ensuing period of economic rehabilitation and development. They held sway in China's industrialization, an essential provision of Marxian socialism. On the other hand, their "whole-people" ownership system, egalitarian distribution principle, and socially prominent work force have made them resonant ideological signifiers and requisite political buttresses of the socialist system and the Communist rule in China. Yet their short history in a physical and cultural environment that did not match what Marx had conceived for socialism indicated that they could not play out their political and economic roles to expectation unless they matured, both economically and politically.

In overseeing the development of state firms, leaders in the Mao era, however, proved unable to integrate their economic and political agendas for enterprises. Perhaps for want of specific guidelines in Marxist literature and specific practices within the socialist community, they seemed constantly caught in a spiraling dilemma focusing on either improving economic performance or securing the socialist orientation of enterprises. Their failure to find a way to combine "red" and "expert" in enterprise development made the issue of who should be in command on the factory floor extremely important and controversial. This went beyond being a competition for priority between profit volume and political accountability. It also determined the mode of management. Individual managers

were likely to exercise their authority through hierarchical rules and regulations and would center their decisions around market returns, while the Party committee tended to follow socialist organizational principles and attend to workers' interest. This issue, obviously, was of great consequence with respect to the stability of the socialist regime. It was therefore not surprising that Communist leaders in the Mao era carried out incessant political campaigns and issued innumerable ordinances to consolidate the Party's control over state firms, except during a few short intervals when economic predicaments forced the gravity of power to shift to managers.

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⁴⁵ Wang Mengkui, op. cit., p. 148.

⁴⁶ "Report of the Forum on the Issue of Leadership in State-Owned Enterprises Delivered by the Third Office of the Secretariat of the CPC Central Committee," May 16, 1955, in All-China Trade Union. (zhongyang shujichu disan bangongshi guanyu gongkuang qiye de lingdao wenti zuotanhui de baogao)

⁴⁷ "Circular of the CPC Central Committee on Dispatching the Report of the Forum of the Leadership in Enterprises Delivered by the Third Office," October 24, 1955, in All-China Trade Union, pp. 202–203. (zhonggong zhongyang zhuanpi zhongyang disan bangong shi guanyu changkuang lingdao wenti zuotanhui de baogao)

⁴⁸ For details about the Gao Gang conspiracy, see Uhalley, 1988, pp.104–105.

⁴⁹ Barry M. Richman, op. cit., p. 358.

⁵⁰ Mao Tse-tung, "On the Ten Major Relationships", April 25, 1956, in the Selected Works of Mao Tse-tung Volume V, (Beijing: Foreign Languages Press, 1977), pp. 303-304.

⁵¹ The congress did acknowledge the contribution of the system to the reestablishment of production order in enterprises during the period of economic rehabilitation. The congress even allowed controlled application of the system to continue. For further information, see Documents of the Eighth National Congress of the Chinese Communist Party, (Beijing: People's Publishing House, 1957), pp. 457-459. (zhongguo gongchandang bada wenjian huibian)

⁵² The anti-Rightist movement was meant to retaliate against those who were alleged to have taken advantage of the rectification campaign launched by the government earlier that year and the "hundred flower" policy to challenge the leadership of the Communist Party.

⁵³ Ng Sek Hong and Russell D. Lansbury, "The Workers' Congress in Chinese Enterprises," in Malcolm Warner, ed., Management Reforms in China, (London: Frances Pinter Publishers, 1987), p.149.

⁵⁴ Gordon White, "The Postrevolutionary Chinese State" in Victor Nee and David Mozingo, ed., State and Society in Contemporary China, (Cornell University Press, 1983), p.39.

⁵⁵ "Instruction of the Central Party Committee on the Report of the Party Committee of Heilongjiang Province on Cadres Participating Physical Labor, Workers Participating Management and Management Reform," April 18, 1958, in All-China Trade Union, p. 235. (zhonggong zhongyang dui heilongjiang shengwei guanyu qiye ganbu canjia laodong gongren canjia guanli ji shixing yewu gaige de baogao de pishi)

⁵⁶ Deng Xiaoping, "Report on the Rectification Movement," September 23, 1957, in All China Trade Union, p. 234. (guanyu zhengfeng yundong de baogao)

⁵⁷ For details of the movement see Uhalley, op. cit., pp. 115-126.

⁵⁸ Wang Mengkui, op. cit., p. 33.

⁵⁹ Wang Mengkui, "The Manager Responsibility System Is a Sound Policy for Enterprises: Recollections of the Single-Person Leadership," Economic References, April 27, 1984. (changzhang jingli zerenzhi hao: dui yizhangzhi de fansi)

⁶⁰ Franz Schurmann, op. cit., p. 297.

- ⁶¹ Industrial Economic Institute of Chinese Academy of Social Sciences, Collections of Regulations on China's Industrial Management (Beijing: Geography Press, 1980). (zhongguo gongye guanli tiaolie huibian)
- ⁶² Oiva Laaksonen, op. cit., p.111.
- ⁶³ Ibid., p. 116.
- ⁶⁴ Harry Harding, op. cit., p. 248.
- ⁶⁵ Marc Blecher, China: Politics, Economics and Society, (Boulder: Lynne Rienner Publishers, Inc., 1986), p. 84.
- ⁶⁶ Ibid., p. 85.
- ⁶⁷ Mao Tse-tung, "Report to the Second Plenary Session of the Seventh Central Committee of the Communist Party of China," March 5, 1949, in Selected Works of Mao Tse-tung Volume IV, (Beijing: Foreign Languages Press, 1961), p. 362.
- ⁶⁸ Marc Blecher, op. cit., p. 85.
- ⁶⁹ Ibid., p. 85.
- ⁷⁰ Stephen Uhalley, op. cit., pp. 188–189.
- ⁷¹ Maurice Meisner, "The Deradicalization of Chinese Socialism," in Arif Dirlik and Maurice Meisner, eds., Marxism and the Chinese Experience, (New York: M. E. Sharpe, Inc., 1989), p. 350.

CHAPTER 3

ENTERPRISE REFORM 1979–1994: CHANGES AND CONTINUITY

In 1976, Mao "went to call on Marx," as his own description of death had put it. His decease signed the end of an important era in the Chinese Communist history. Yet Mao did not take with him all the socialist institutions that he had helped to establish. Many of the institutions, or routinized social practices, in Anthony Giddens' terms, have carried on well into the reform era.

The institutional continuity has transcended the limitations of Mao's "presence" because post-Mao society, to invoke Giddens again, still draws upon structural properties, or rules and resources, of socialist institutions in its daily transaction of many events. The recognition and repetition of familiar modes of conduct stretch the established social relations beyond Mao's generation of revolutionaries and reproduce institutionalized practices, in the process of which the structural principles are also reinforced.¹ This is even more so with regard to state enterprises because their crucial role in perpetuating the ideological commitment and legitimacy of the Communist regime necessitates a more conscious adherence on the part of post-Mao leaders to the socialist features of production and management. This has resulted in many of their ordinances, programs, and forums for the enterprise reform between 1978 and 1994 resembling practices in the Mao era (see Figure 3.1).

Post-Mao leaders have publicly confessed that the Chinese Communist Party made two grave mistakes in its twenty-nine years of rule before the outset of the economic reform in 1978. One was launching the "Great Leap Forward" in the late

1950s and the other was related to the "Cultural Revolution" (1966-1976). They have admitted that the misconducts resulted from the Party's Leftist interpretation of Marxism. In both cases the Leftist tendency was manifested as an unrealistic pursuit of advanced production relations regardless of the actual conditions of China's productive forces. Class struggle was hence over-emphasized and on occasion artificially magnified.²

With regard to state enterprises, this tendency reportedly took the form of the central leadership defying scientific principles and technical know-how in modern industrial production and management, and attaching undue importance to socialist orientation. According to critics, this occurred in two ways. First, professionals in management were replaced by Party officials. Second, "emulation campaigns" replaced scientific managerial mechanisms. These tactics supposedly assured that the political accountability of state firms to the socialist regime was maintained. Critics allege that these practices resulted in chronic low efficiency and productivity in the state industrial sector, judged by standards of market economies.

The post-Mao leadership's prescription for the problem was to decrease the ideological volume of discussion on development issues in China and to shift the center of gravity of the Party's work to economic modernization. To improve productive efficiency of state firms, it first stopped criticizing the single manager responsibility system in 1978. The leadership then pushed state agencies to dedicate increasing decision-making power to enterprises. In this course, managers experienced a steady upgrading of their roles and rights in exercising the power, from assuming some responsibilities under the leadership of the Party committee in

YEAR	EVENT	PROMOTES
1978	30- point decision on industrial development	⇒ Managerial staff sharing responsibilities under Party Committee's leadership
1980	Deng's address to the Political Bureau	⇒ Manager responsibility system under a board of workers and staff
1981	Provisional Resolution on Workers' Congress	⇒ Participatory management
1982	Provisional resolutions on managers' and Party's functions	⇒ Manager responsibility under the leadership of Party committee and supervision of Workers' Congress
1984	State Enterprise Law (draft)	⇒ Managers command but should not ostracize the Party's leadership or change socialist orientation of State Enterprises
1986	Revised resolutions on Workers' Congress, Manager and the Party's	⇒ Managers' administrative command, Party committee's political leadership, participatory management
1989	Aftermath of Tiananmen Sq. Incident	⇒ Manager's responsibility and Party's political leadership
1991	Speech by an official from Economic Restructuring Commission	⇒ Manager's greater autonomy in decisions on investment, marketing, labor allocation and income distribution
1992	Ordinance on management Reform	⇒ Legalization of manager's autonomy in operation
1992	Party's 14th Congress	⇒ Socialist market economy/enterprises becoming corporations and managers as chief executives Party's grassroots organizations as the political core of enterprises Manager's authority audited by Party committee and complying with socialist principles
1993	Government's decisions on elastic wage system, labor market, and social welfare system	⇒ Managers' power to adjust work force according to market demands
1993	Union's 12th National Congress	⇒ Dominant Position of the Working Class in Society
1993	Party's decisions on some issues of the socialist market economy	⇒ Manager responsibility, Party's political leadership, participatory management

Figure 3.1 Change and continuity in management of state-owned enterprises 1978–1994.

1978 to becoming the chief in command on the shop floor in 1994. In contrast, Party officials witnessed a sharp decline in their status, from being urged to first let managerial staff share leadership, then recognize managers as administrative commanders, to finally extricate themselves from "providing substitutes for managerial leadership."³

Yet inasmuch as it initiated the market-oriented reform in state enterprises, the Party leadership demonstrated no intention to abandon the socialist system. This meant that while Party committees on the factory floor might have relinquished the day-to-day administrative control over production and management to professionals, socialist features of state firms, especially the principles of whole-people ownership and equitable distribution, continued to perpetuate the "traditional communist polity" and the "political rules of the game."⁴ In other words, post-Mao China's persistence in maintaining the socialist nature of state firms has meant that managers continue to be subjected to the "domination" of the working class, effected through the Party and in the form of participatory management. Moreover, although managers have been encouraged to operate according to market rules, their profit-driven and cost-effective managerial strategies and procedures were not supposed to violate the welfare of workers—the joint owners of the means of production and "masters" of state firms. Confined within the conventional socialist framework, the post-Mao manager responsibility system, in conclusion, has not transcended the concepts and formulas of enterprise management developed in the Mao era. Post-Mao leaders' eagerness to develop China into a major power in the world economy through the market might have offered enterprise managers

unprecedented authority in operation. The perpetuated socialist principles, however, kept stopping them from exercising the power. By 1994, state enterprises still had not operated according to market rules on net efficiency standards created by market economies.

INITIAL EFFORTS TO REORGANIZE MANAGEMENT

In December, 1978, the Third Plenary Session of the Party's Eleventh Central Committee decided to accelerate the modernization process of agriculture, industry, science and technology, and defence through economic restructuring. The immediate purpose of the decision was to rebuild China's economy after the devastating Cultural Revolution, which it indicted as having "dissipated incentive and responsibility for economic performance through egalitarianism, the weakening of management, the general devaluation of expertise and the claim that ideological fervor and inspired leadership could substitute for technical knowledge."⁵ This time, however, the rescue effort was not intended to reinforce the centralized system that had been bruised during the Cultural Revolution. Rather, there was a desire to stimulate productivity through greater ideological tolerance and economic diversity, the central feature of which was to integrate the market element into the socialist economy.

The reorganization of state-owned enterprises began in April of the same year when the Party Central Committee circulated the draft of its "Decision on Issues Concerning the Acceleration of Industrial Development." The 30-point document suggested that enterprises reinstall the system of managers and staff sharing responsibilities under the leadership of the Party committee. It reaffirmed

that decisions on production, finance, personnel, and welfare remained in the Party's jurisdiction; but the professionals were to see to their implementation.⁶ To enable the manager, the chief engineer, the chief accountant, and the chief technician to assume their responsibilities, the document suggested that the power distribution between the Party committee and the managerial staff should be balanced so that the latter would have power commensurate with their responsibilities. Yet it did not elaborate on specific procedures for empowering the managerial staff and containing the Party committee's potential infringement. Without a breakthrough in this regard, the attempt to increase management's authority and responsibilities in overseeing the day-to-day work could not effectuate what had been promised managers since the Mao era.

Whether driven by his ambition for development or a perceived urgency to improve production and people's livelihood, Deng seemed eager to bring professionals more into the decision-making process and management of economic activities. In August 1980, he addressed an enlarged meeting of the Political Bureau and proposed to reform the leadership of the Party and administration of the state. He enunciated that the focus should be the problem of overcentralization of power in the Party and its trespassing on jurisdictions of government agencies and professionals.⁷ With regard to state enterprises, he explicitly stated that the prevailing management system was a proven failure. In its place, he recommended the manager responsibility system under the supervision of a board composed of elected representatives from workers and managerial staff.

This suggestion, however, did not appeal to many senior officials, especially Party secretaries at the provincial level. They were concerned that the Party's leadership might eventually be nullified, since Deng did not specify its status in or relationship to the board of management. After heated closed-door debates, Deng made a concession—it would be permissible to keep the system of divided responsibility by management under the leadership of the Party committee.⁸ Yet this did not conclude the controversy over the issue of whether the Party's leadership or the manager's authority should prevail. Instead it gave birth to three compromise provisional resolutions on the functions of management, the Party committee, and the workers' congress.

The first resolution resulted from a forum on participatory management sponsored by the All China Trade Union, the National Economic Commission, and the Ministry of Organization of the Central Party Committee, held between 29 May and 9 June, 1981. The participants from both government agencies and enterprises agreed that the most expedient approach to managing a socialist enterprise was still "democratic centralism" or participatory management under the leadership of the Party. They maintained that, although the Party leadership had promised to rely on the industrial working class before it had moved its headquarters from the countryside to the city in 1949, workers' involvement in decision making and management was still limited. They believed that the institutionalization of participatory management had to be preceded by perfection of the Party's leadership. In other words, Party committees in enterprises should really perceive workers as masters. Only when they were so convinced, would they adequately

esteem and protect the latter's rights to participating in management and see to the implementation of decisions made by the workers' congress. Improvement in the Party's work would, in turn, help it reclaim its prestige among the people and be conducive to the consolidation of the socialist system.⁹ The essence of these arguments was obvious: to continue following Mao's "mass Line" in administration and management.

The forum participants insisted that the economic reform should expand the spectrum of the workers' congress power and rights. The functions of the congress continued to be: examination and ratification of decisions on important issues; making decisions on issues that had direct bearing on workers' interests; supervising management; electing and removing heads of workshops and work groups. On the issue of relations between the congress and the manager, the forum specified that the latter should honor the former's rights, observe its resolutions, and accept its surveillance. The congress, in return, should support the manager in executing his/her power and should help workers follow discipline, fulfil production quotas, and cultivate their sense of responsibility as the real masters of the enterprise.¹⁰ This definition of the relations between the two parties was obviously not different from that reiterated time-and-again between 1930 and 1978.

In January, 1982, the Party leadership and the State Council issued the second provisional resolution to further clarify the status, rights, and responsibilities of managers.¹¹ It stipulated that managers should be either elected by workers and staff or appointed by government agencies. Their "political performance" apparently still outweighed their managerial expertise as the order of the desired

qualifications for the position was adhering to socialism, taking good care of the interests of the state and the people, maintaining close ties with workers, and having a degree from at least a junior high school plus five years of experience in management. Once put in office, however, managers were to be mandated by the state to take command in management and administration including the allocation of resources and funds, and rewarding and penalizing workers.

Yet the provisional resolution had echoed the rules and practices of the collective leadership system dominated enterprise management for the greater part of the Mao era, continued to subject managers to the leadership of the Party committee and the supervision of the workers' congress. This obliged them to report to the Party committee on annual production plans, long-term development programs, key technical renovations, professional training plans, structural changes, wage adjustments, amendment or abrogation of rules and regulations, and appointments for the positions of assistant managers, chief engineers, chief accountants, and division heads. If the Party committee approved their proposals, the manager was responsible for their implementation. Should the manager disagree with the Party committee about any of its decisions, he/she could ask the latter to reconsider it. If the manager was not satisfied with the result, he/she could report the issue to higher authorities, usually a superior state agency, for a ruling. In cases of emergency, however, managers were authorized to make decisions even on issues outside their jurisdiction, although they should inform their superiors for instructions as soon as they could manage.

For the workers' congress to supervise their work, managers were to regularly inform its members of the state of affairs of production and management.

Managers were also accountable for carrying out the congress' decisions in these two areas. If they disagreed, the same procedures prescribed for their differences with the Party committee applied. The only distinction was that the arbitration body would be the Party committee in the enterprise rather than a government agency.

By holding managers subordinate to the Party committee and the workers' congress, the resolution did not transcend the confinement of conventional socialist organizational principles and practices. Yet its intention to bring their initiative and expertise into better play in enterprise production and management did seem more sincere and serious than that of many other similar mandates preceding it. For to motivate managerial staff, the resolution even specified that when technical and economic indexes evidenced excellent performance by an enterprise, its manager was to be credited with honorary and material rewards. Prizes would be granted especially to those who had facilitated a significant technological breakthrough, substantial production growth for three consecutive years, or a shift from chronic deficits to sustaining profits for more than a year. The "flip side" of the incentive, however, was administrative disciplinary measures for managers who violated state decrees, or failed to abide by contracts that they had signed with state agencies on behalf of their enterprises, or whose mismanagement and negligence had resulted in great financial losses, contamination of the environment, or serious safety accidents.

In addition to these two resolutions on management and the workers' congress, the central leadership also enjoined the Ministry of Organization in May, 1982, to draft an ordinance on the functions of the Party committee in a state

enterprise.¹² It first reiterated the predominance of the committee over management, the workers' congress, the trade union, and the youth and women's organizations. In the spirit of the policy that the Party should control the personnel matters of the bureaucracy, the committee was also to assess the performance of middle-level managerial staff and make decisions on their appointment, removal, reward and penalty. Yet the resolution was quick to note that this should not be interpreted to mean that the Party committee could reclaim the direct management of production. It should rather honor managers' authority in daily management and encourage workers and staff to obey his/her instructions. Also prominent on the agenda of the Party committee was the issue of workers' involvement in management through their congress. Its mission was twofold. On the one hand, the Party committee was to help prevent the jurisdiction and designated functions of the congress in the enterprise from being violated. On the other hand, it should minister to the interests of the enterprise and the state by admonishing the congress and its constituents not to overly accentuate their personal well-being at the expense of the former.

Many Chinese scholars simplified the three resolutions into "the collective leadership of the Party committee, the participatory management of workers, and the administrative command of the manager." They took them as a compromising arrangement, and maintained that by allowing managers more functions in the Party-controlled administration the resolutions sought to both pacify and hush those who were eager to see the ambitious post-Mao plans for industrial development set in motion and who were also ready to stage a comeback of the single manager

system.¹³ Whatever intentions the leadership might have harbored, the three resolutions each emphasized the roles of one division of the enterprise administration. Overlap of the "Party's leadership," "workers' supervision," and "managers' command" in their respective rights and obligations was thus unavoidable. These resolutions therefore required good coordination among the three "powers" in order for each party to fulfil its duties. Yet due to the lack of conceptual as well as empirical references in this regard, among other reasons, this issue was left unspecified in the three documents. As a result, the status quo continued: the Party committee was in firm control of state enterprises from 1982 to 1985, with managers taking charge of only some daily routines.

THE STATE ENTERPRISE LAW CREATES THE EXISTENCE OF TWO CHIEFS ON THE SHOP FLOOR

The development of the economic reform soon led to a new surge of disputation on enterprise management. In his government report delivered to the Second Plenary Session of the Sixth National Congress on 15 May 1984, Premier Zhao Ziyang announced that an unqualified manager responsibility system would be gradually instituted in all state-owned enterprises and that the manager would be mandated by the state to be in charge of production and administration.¹⁴ He explained that the prominent ascendance of management's status and role was necessitated by the decision of the State Council to substitute the profit-retention system with income taxation.

Installed first in 4,000 pilot enterprises in 1979 and extended to 10,600 by the mid 1980s, the former system allowed state industrial entities to establish a fund by retaining three to five percent of its planned profits and 15 to 25 percent of

its profits above-planned levels. This segment of the revenue was then portioned out among capital investment, collective consumption (such as employees' housing and other welfare expenditures), and bonuses.¹⁵ This profit incentive policy was meant to motivate enterprises to be more responsive to market demand and the cost-effectiveness of their production.

If the profit-retention system conferred much greater autonomy on enterprises than they had ever enjoyed in the centrally-planned structure, its replacement would prove even more liberal. Under the new "tax-for-profit" system (installed in 1983), enterprises were to pay a series of well-defined taxes; in return, they could keep their net profits. This policy magnified the decision-making power of enterprises in allocating and utilizing an unprecedentedly large amount of resources. Nevertheless, the central leadership, anxious to stimulate industrial productivity, was ready to concede still greater autonomy. In 1984, the State Council issued its "Provisional Regulations on Further Extending the Decision-Making Power to State Industrial Enterprises" to expand their authority from planning for production and operation to sales, pricing, material purchases, personnel management, wages, and relations with other establishments.¹⁶

The greater autonomy delegated to the enterprise called for more accountability of its performance. The Party committee, however, was not considered capable of providing it as its collective leadership was described as "everybody in charge and thus nobody in charge." Moreover, its group-decision process was deemed inefficient because wrangling and quibbling among different interests over different approaches to administration were frequent; this delayed

resolutions and actions. Based on the negative evaluation of the Party committee's performance, Zhao requested (at the Second Plenary Session of the Sixth National Congress in May, 1984) that it yield its authority to the manager. Three days after he had addressed the Congress, the General Offices of the Party Central Committee and the State Council publicized the draft of the State Enterprise Law, which endorsed his proposal. In the ensuing pilot program for implementing the law, selected enterprises from Beijing, Tianjin, Shanghai, Dalian in Liaoning Province, and Changzhou in Jiangsu Province, were expected to gradually become corporations with managers acting as their legal representatives to make decisions on technical and operational issues. There was to be no outside interference.¹⁷

In October, 1984, the Third Plenary Session of the Party's Twelfth Central Committee resolved to officially extend the responsibility system by extending contracts that had been in effect in rural China since 1978 to enterprises in the urban areas. It identified the status of state-owned enterprises as "socialist commodity producers" that were expected to independently manage their own production and be responsible for their own profits and losses. The resolution also succeeded in closing the dispute over the distribution of power within the enterprise by reaffirming the central role of the manager in management and production. To justify its position, the Party Central Committee reiterated that the minute division of labor, the continuity of production, and the strict technological requirements characteristic of modern enterprises necessitated a unified, authoritative, and efficient management. It was asserted that the system of manager responsibility

would provide a better answer for these needs than the collective leadership represented by the Party committee.¹⁸

In line with the resolution, great importance was also attached to management education for the purpose of equipping managers with expertise necessary for their authority and responsibilities. Since China under the Communist leadership had never established a business school or developed a curriculum, the majority of training programs was modelled after business schools in North America, Western Europe, and Japan. This choice was, more importantly, founded on the belief that management systems prevailing in these areas were "scientific," as evidenced by high industrial efficiency and productivity. Urging managers to be enrolled in a program, take telecourses, or study through a correspondence school, the central government professed its ambition to have all top managerial staff of state enterprises systematically trained in "modern" management concepts and practices during the Seventh Five-Year Plan (1986-1990).¹⁹

The effort to renew the prominence of the manager was by no means, however, intended to pose any challenge to the legitimacy of the Party organization in the enterprise. For while seeking to prop up the manager as the center of power, the Enterprise Law explicitly stated that the manager responsibility system should not be taken to mean the ostracism of Party leadership from state enterprises or a change from their socialist orientation.²⁰ Promising that the Party's leadership in the enterprise would become politically oriented, the Twelfth Central Committee specified that the mission of the Party organization in enterprises would be to audit the manager's performance in line with government policies and instructions,

supervise the workers' congress in its mediation between labor and management, and assist managers through creating a favorable work environment with mass ideological education.

This reconciling arrangement—placing two commanders in state enterprises—was the quintessence of the revised regulations on the work of the manager, the Party, and the workers' congress issued in September 1986 by the Party Central Committee and the State Council. Compared to the 1981 and 1982 resolutions (discussed above), these revised documents elaborated in greater detail the manager's functions as the principal commander and the Party committee's supervisory mission.²¹ Yet like their antecedents and other similar resolutions on the leadership on the factory floor, these documents also fell short of clear demarcation between policy-oriented issues that were supposed to be ruled under the guardianship of the Party organization and technical or managerial questions that should fall under the jurisdiction of the manager. In other words, while post-Mao leaders were eager to help technocrats take charge of production so as to accelerate industrial growth, they were unwilling to exclude the Communist Party from economic activities as dissociation might ultimately undermine the Party's leadership. Moreover, they were unwilling to involve themselves in the necessary but potentially controversial discussion on what "political orientation" of production meant and where it ended and "economic concerns" of production began.

Despite this ambiguity, managers and Party officials seemed content with the coexistence of a political core and a managerial center in state enterprises. While still unable to override interventions in their operation by the Party committee,

managers acknowledged their greater liberty and autonomy in management and production. They also seemed to appreciate the greater observance and esteem ascribed to their professional knowledge and judgment by the Party committee in making decisions on important issues. Party officials, on the other hand, did not feel alienated from the operation of the enterprise, although they had to retire from routine decision-making duties and daily management. The status of being the political center allowed them to relinquish a substantial portion of their power without sacrificing their pride. Furthermore, it made them feel that they were still needed in operating the enterprise and hence could interact positively with managers.²² The cooperation between Party officials and managers during this time was generally agreed to be the best since the economic reform began.

"SEPARATING PARTY AND GOVERNMENT" MEANS MANAGERS BECOME THE "SOLE LEGAL REPRESENTATIVES"

This dual-leadership arrangement, however, did not meet the expectations of some in the central government and the intelligentsia. For them, the existence of a political core and a managerial center distorted the manager responsibility system and hampered the efforts to improve the productive efficiency of the public industrial sector. They expounded that, in addition to extra bureaucratic complexities resulting from parallel command systems, their surveys indicated that managers were forced to commit time and energy to nurturing personal relations with Party officials in order to smoothly fulfill their newly assigned obligations. They also criticized the arrangement for perpetuating the feudal institution of "ruled by man." They maintained that the obscure division of jurisdiction and the vaguely

defined hierarchy between the two centers made it difficult for both parties to regulate their interactions by rules and laws as was intended by the manager responsibility system. The two centers had to resort to "personal friendship" to circumvent or settle their unavoidable mutual infringements.²³ Unsatisfied with the arrangement and impatient with the development of management reform as a whole, these people stepped up their efforts to streamline the political center in state-owned enterprises immediately after the Thirteenth Congress of the Party officially proposed to reform the political structure in October, 1987.

According to the resolution that came out of this congress, China was still at the primary stage of socialism and should hence mobilize all available expertise to develop a commodity-based economy. The first and foremost task of political restructuring was therefore to gradually reduce the Party's monopolized control over the affairs of government departments, mass organizations, and economic and cultural institutions. These establishments were then to independently program and manage their own actions and activities according to their best judgment. The leadership of Party organizations at the central and local levels was to be restructured to focus on formulating political principles and major policies and on sustaining the socialist orientation of the nation. This meant that Party committees in state-owned enterprises should also cease exercising leadership. Their mission, instead, was to be limited to supporting and supervising managers in their assumption of overall leadership.²⁴

The version of the Enterprise Law later ratified filled in the details of the undertaking to separate the functions of the Party versus government in state

enterprises. Article 45 stated that managers who were appointed by government agencies, elected by the workers' congress, or hired competitively from a pool of applicants, were the sole legal representatives of their enterprises. As heads of the command center on the shop floor, they were to take full charge of both the "material and spiritual" construction in which their enterprises were engaged.²⁵

Interpreted as such, "separation" actually meant that management would take over the political and ideological functions of the Party. The Party committee, in turn, would be demoted as subordinate to management and the Party secretary was to be an assistant to the manager.²⁶

The media echoed this understanding. In both central and local newspapers, articles directly asserted that separation of Party and government in state enterprises should mean limiting the leadership of the Party committee to its intra-organizational affairs, rewriting positions of Party officials into half-time jobs, and relegating the Party organization to a spare-time club. To that effect, Party committees should first hand over to management their share of the decision-making rights in production and personnel affairs. In due course, they should relinquish their other extra-Party offices ranging from ideological and vocational education to distributing welfare assets and family planning.²⁷ Since the media in China is often the means through which the authorities at both the central and local levels inform the public of their will or prepare the populace for their contemplated motions, the public is conditioned to read between the lines of political editorials and commentaries for governments' intentions or their likes and dislikes, and act according to what is inferred. Although distinctive interpretations of the public

often translate into diversified responses, in the case of separating Party and government in state enterprises, the campaign to promote the manager responsibility system immediately picked up nationwide momentum. The structural existence of the Party on the shop floor underwent a retrenchment to the effect that the Party committee, except for those in large (and some medium-sized) enterprises, was reduced to a Party-affairs office with one or two officials and a clerk. These officials were also designated, in explicit terms, as assistants to managers.²⁸

PROBLEMS ARISE FROM CONCEPTUAL AMBIGUITY AND LACK OF OPERATIONAL MEASURES IN IMPLEMENTING THE MANAGER RESPONSIBILITY SYSTEM

Whether the Party organization or the manager should be in command was, however, not merely an issue of power distribution or power struggle. Its impact was also perceived as an issue of ownership (public ownership versus a single manager), income distribution (distribution according to work monitored by the state versus distribution based on the judgement of managers), participatory management (workers' participation as an institution versus single-person management), and employer-employee relations (between managers as public servants and workers as masters versus a relationship between agents of yet-to-be-defined proprietors and wage laborers). Related to these issues of principle were also questions of socialist and traditional values such as collectivism, self-sacrifice, and altruism. Yet promoters of management reform in the central leadership and their like-minded supporters down the hierarchy did not commit themselves to addressing these issues at the conceptual level. Thus, since China's socialist conceptual paradigm not only bears heavily upon the political climate but also molds norms of socio-

political-economic conduct, their shying away from these issues fermented confusion among practitioners of the manager responsibility system.

For example, if by their "ignoring" these issues it was meant that the manager responsibility system should not change the socialist orientation of the enterprise, the Party committee's involvement in making and executing decisions should be perfectly justifiable. After all, China's socialist mode of production was primarily the result of actions of the Communist leadership in the first place. Yet the ambiguous definition of the political leadership made Party secretaries feel that they were in a dilemma. They could be criticized either for being politically negligent if they subjected themselves to the rule of managers and ignored the aforementioned issues, or for trespassing managers' legal rights if they tried to function as check-and-balance agents. Many of them analogized their situation to track and field athletes who were pressured to win a medal in a race but were not assigned a track.²⁹

Neither did managers have an easier time in spite of the ascendance of their status. The milieux in which they were to play out their new role did not enable them to achieve their goals. Specifically, complicated socialist principles lurked in the equivocally-defined separation of Party and government. The public ownership system, now containing few market aspects, and corresponding employment and distribution principles proved impediments to maximizing profit margins. Moreover, workers' expectations of higher wages with but few radical changes in the existing managerial status quo did not permit the attempted enforcement of more rigorous discipline on the shop floor. Given the nonexistence of an effective labor market

and hence low labor turnover rates in the public sector, managers were vulnerable to workers' pressure for higher wages but lower production quotas,³⁰ and were conservative in using monetary awards and penalties to stimulate competitiveness.³¹ Yet they did not seem to have other more effective means to mobilize and stimulate workers. Achieving conventional moral and political enlightenment was time-consuming and managers could not afford much of it. Nor was the Party committee of much help in this aspect as the task of the "spiritual construction" had already been shifted to managers by the Enterprise Law. Moreover, political incentives were no longer convincing, outdated especially by managers who abused their power for personal gains and thus failed to be role models and honor their own moral and ideological preaching.

Equally troublesome for the implementation of the manager responsibility system was the absence of a sound check-and-balance mechanism within the enterprise. If economic restructuring was to fare as its architects intended, the state would gradually have to relax its direct control over enterprises through the mandating of plans for production and use of physical and human resources. The right to dispose of the enormous amount of publicly owned assets would be transferred to managers. An effective device would thus be necessary to protect public interests and to increase the value of public property. Some political theoreticians suggested establishing a tripartite structure in enterprises. The workers' congress would act as the legislature, the manager as the executive, and the Party organization as the surveillance body. Yet this proposition was of little immediate feasibility because the workers' congress still constituted little more than

a status symbol of the working class; it would take time for the congress to evolve into a competent legislative entity. Neither could Party organizations in enterprises be expected to instantly arrive at an expedient approach to supervision; they were still entangled in an identity crisis over their status. Under these circumstances, managers could easily monopolize the decision-making, implementation, assessment, and distribution processes but be subjected to little institutional restraint.³²

As the saying goes, "power corrupts," be it in the hands of the Party organization or the manager. Even before they were given free rein, quite a few managers were already found exploiting their power for their personal and familial interests. For example, some abused the government regulation allowing managers who excelled to be paid more than workers;³³ they set the scale of their own salaries up to ten times higher than the average of their workers.³⁴ Others assigned themselves the first priority when allotting public housing. Still others took advantage of their positions and power to secure access for their children, relatives, or friends to employment and better jobs. In contrast, many workers often had to move up their retirement date in order to create vacancies for their offspring. Some managers concocted pretexts to hold extravagant "business feasts" and to take "business trips" to excursion resorts or "study tours" to foreign countries, charging all expenses to enterprises' accounts. Apart from the enjoyment of a trip, the treat of travelling abroad also allowed them access to hard currency and duty-free foreign consumer goods.³⁵

As might be expected, this abuse of power alienated many workers. The latter's exposure to Marx's socialism and their long-term experience of relative social equality and material egalitarianism did not prepare them for the overtly polarized disparities. Demoralized by the emerging chasm between privileged managers and themselves, but feeling incapable of initiating any change in the situation, most workers showed little interest in the growth of efficiency and productivity intended to result from the reinstalled single manager responsibility system. Rather, they focused their attention on not losing too much ground to managers in reaping profits. That they would only put in as much effort as they believed their wages and bonuses were worth made it clear that their anticipation for regular income and bonus hikes should be taken seriously.³⁶

CRITICISMS OF MANAGER RESPONSIBILITY SYSTEM VOICED DURING THE TIANANMEN SQUARE INCIDENT

The specific problems that arose in recent attempts to separate Party and government in state enterprises and the conceptual ambiguities of the entire undertaking provided critics, especially Party officials on the shop floor, with plenty of ammunition. Yet, interestingly, it was the Tiananmen Square Incident in the summer of 1989 that gave them the best opportunity to air their criticisms and to appeal for a return to the collective leadership of the Party. They attributed the demonstration to "rioters" taking advantage of the debilitated Party organization and its vanishing authority at all levels. They alleged that the deteriorating process began with "separating Party and government," and denounced it as a scheme to cripple and eventually make obsolete the Party's leadership. They also charged the

Secretary General of the Party Central Committee, Zhao Ziyang, as the chief designer and director of the scheme. This accusation was based on the belief that, while heading the Party, Zhao had paid little attention to its affairs between 1987 and 1989 but had tried every possible means to remove grass-roots organizations within it. They claimed that he had backed the manoeuvre of removing from the Party committee first the control over production, then the decision-making power in personnel affairs, and finally the function of conducting political education. Having reduced the Party committee to figurehead status, they claimed, he then proceeded to assist in the destruction of its organizational existence by first amputating its functionaries, then demoting its remaining positions to part-time appointments, and, finally, attaching it to the Party committee of the neighborhood where the enterprise was located. They asserted that this last move had placed the Party committee in the enterprise completely under the auspices of management because it was cut off from the Party hierarchy at large and had access to only filtered and often delayed information on production quotas, resource procurement, profit allocation, and personnel arrangement. The critics mocked that, from the Party's 13th Congress in 1987 to the summer of 1989, "the Party was the political organization in power at the central level, an executive division at the local level, a spare-time gathering at the enterprise level, and an empty body in the village." Zhao however, according to the critics, seemed still unsatisfied with the situation. He reportedly flared up at meetings, one with forty managers on April 27, 1989, and another with Party secretaries, complaining that the former were not central enough and that the latter's attitude toward the manager responsibility system was still problematic.

Many Party officials were outraged by his remarks and complained that he was attempting to destroy the "fortress" from within.³⁷

GOVERNMENT STANDS FAST ON A MARKET ECONOMY CROWNED WITH SOCIALISM, AND THE IMPACT OF THIS ON THE MANAGER RESPONSIBILITY SYSTEM

Resolved to accelerate economic development and confronted with the adversity of the Communist world, the post-Mao leadership did not follow the anti-market critics' suggestion to unleash the customary political crusade in the aftermath of the Tiananmen Square Incident. Although it launched a socialist educational campaign to "prevent peaceful evolution from socialism back to capitalism," the leadership confined the undertaking to universities and other cultural institutions. In the economic sector, it continued its liberal policy and tried to avoid the pendulum swing of management back to the absolute control of the Party organization. Yet while managers remained the sole legal representatives of state enterprises, the term of "separating Party and government" did disappear from the media and was replaced by the phrase "strengthening the role of the Party committee as the political core in the enterprise." The "core" and the "center" were encouraged to "cooperate" with rather than to be "separated" from each other. Focusing their attention on consolidating the Party organization and conducting political education among workers, Party officials were urged to concern themselves with production and management.³⁸ The Party committee was, meanwhile, quietly changed back from being an irrelevant affiliate of a neighborhood committee to the extension of the Party hierarchy in the given trade. Its severed branches were also gradually reinstalled on the shop floor. Yet the boundary between "political" and

"technical" issues and hence between the respective jurisdictions of the "core" and "center" remained murky. Their "cooperation" was still left at the mercy of personal relations between the manager and the Party secretary.

Another reason why the significance of the "political core" was not encouraged to recapture control over the enterprise might have been the depressing economic situation in the public industrial sector. In 1991, state enterprises registered the heaviest economic losses since the founding of the People's Republic in 1949.³⁹ To rescue them from economic adversity and to motivate management, the manager responsibility system was reinforced in late 1991. Managers were granted greater autonomy in investment, designing and marketing products, structural set-up and adjustment, allocation of the labor force, and income distribution.⁴⁰ Pressing state enterprises to become more cost-effective and accountable for their survival and prosperity, the leadership, meanwhile, encouraged them to be more liberal in opening up to not only Western technology but also management mechanisms.

In early 1992, Deng visited the Shenzhen and Zhuhai special economic zones in Guangdong Province adjacent to Hong Kong. During his trip he reiterated that the goal of socialism was to liberate productive forces and China should courageously try any means that could help it reach this end, including practices from the capitalist economies.⁴¹ His "unofficial" speeches (he no longer held any governmental posts by then) brought a new surge to the management reform in state enterprises. In July, the State Council issued the "Ordinance on Transforming Managerial Mechanisms of State Enterprises." This document legalized and

specified the decision-making power of industrial firms in imports and exports, investment, labor allocation, pricing and marketing products, and their rights to reject arbitrary taxation and apportionment of other resources by governmental agencies.⁴²

Finally, at its fourteenth congress (October 1992) the Party Central Committee announced that the goal of China's economic reform was to set up a socialist market economic structure. The resolution also stated in explicit terms that economic development would be the central task of the entire nation for at least one century.⁴³ With the term "market economy," a patented phrase of capitalism, written into the official document of the Chinese Communist Party, the leadership expected state enterprises to finally become corporations, consciously responding to economic legislation and market signals of relative scarcity. The acceptance of the market economy was also expected to justifiably reaffirm the status of managers as chief executives on the factory floor, who had the authority to plan for production and dispose of public assets according to their independent judgement of market demand. Greater autonomy and less government intervention in production and management, on the other hand, meant fewer subsidies from the state and more liabilities on the part of managers. This arrangement was anticipated to motivate managers to improve the existing managerial mechanism by installing "scientific management," which was interpreted as defining tasks and allocating capital and human resources according to cost accounting and market returns. Since workers' performances constituted an essential variable in successful competition on the market, a task of top priority in management reform was for managers to take

initiative in abolishing employment security and using income disparities as incentives to culture competitiveness among workers. It was hoped that once the guaranteed equal share from the "iron socialist rice bowl" was obliterated, workers would quickly cure themselves of indolent and indifferent involvement in production.⁴⁴ Efficiency and productivity of the backbone sector of the national economy would, in turn, be improved.⁴⁵

To push managers to adjust labor organization according to market demands and to utilize a performance-based incentive system, the Labor Ministry decided to introduce an "elastic wage" system in state firms in 1993. Under this system, the state would not issue any mandatory plans to enterprises for their payrolls and total wages. Managers were to determine the size of their work force and the amount of wages, although the increase of the total and individual wages of any given enterprise should remain behind the increase of its profits and productivity, and should be approved by local government agencies.⁴⁶ To encourage enterprise management to tackle the problem of surplus labor by "smashing the iron rice bowl," or by transforming the employment system, the central leadership also promised that beginning from 1993 greater efforts would be devoted to the establishment of a labor market and social welfare system in the state sector.⁴⁷ This implied that managers would eventually have the right to lay off workers for greater profit margins. In his report to the Second Plenary Session of the Eighth National Congress (March, 1994), Premier Li Peng reaffirmed that installing "scientific management" remained a central task of state enterprises, the focus of which continued to be labor—or employment and distribution—reform.⁴⁸

The explicit commitment of the post-Mao leadership to economic development through the market, however, did not promise fair sailing for the manager responsibility system in state enterprises. This is because the switch between managerial mechanisms involves not only technical considerations but, more importantly, issues of political economy. In other words, putting the intended management reform into effect requires readjustment of the social, political, and economic environment in which China's intensely centralized socialist economy has been cultivated. Although the central leadership sought to quickly realize the industrial efficiency and productivity created by market economies, it showed no intention to abandon the socialist orientation of the economy. In fact, the Party's Fourteenth Congress, held in 1992, reasserted to the whole nation that China's market economy was still controlled by the Communist Party and conditioned by socialist theories and praxis. With regard to state enterprises, managers' authority and responsibilities would continue to be audited by the Party organization and would comply with the principles of public ownership, participatory management, and moderate income disparities.⁴⁹ The amended constitution of the Party adopted by this congress reiterated that its grass-roots organizations were the foundation of its leading and working capacity and hence continued to function as the political core of economic entities and would arrange their operations around production and management.⁵⁰

The Twelfth National Congress of the All-China Trade Union (October, 1993) further defined that China's market economy was to be built under its socialist system and would never be permitted to challenge the political nature of the nation

or the dominant position of the working class in society.⁵¹ In November, the Party Central Committee clarified its positions on a few issues with regard to the "socialist market economy." One of them was the management and labor reforms in state enterprises. While it re-endorsed the manager's authority effected through the responsibility system, it also stood fast on sustaining both the Party's political leadership on the shop floor and participatory management through the workers' congress.⁵² In addressing the problem of overstaffing, for example, the leadership asserted through comments in the People's Daily in early 1994 that lay-offs were not a solution.⁵³ Government agencies and enterprises should, instead, help surplus employees get retraining for relocation in other industries. The leadership also instructed that enterprises should under no circumstances cut their welfare funds for retired workers; even when a firm went bankrupt or was annexed by another enterprise, proper arrangements should be made for retirees' lives.

Working under these mixed instructions from the government, managers could not but feel urged to operate as their counterparts in market economies on the one hand, but restricted by socialist norms of operation on the other. Post-Mao China's persistent socialism, and hence the public ownership system, not only made government intervention in production and management legitimate and unstoppable but also put into question managers' rights to independently employ state assets. Continued dominance of public ownership, moreover, perpetuated workers' dual identity as both employees and "masters" of enterprises; this continued to greatly constrain managers' authority to follow the signals of the "invisible hand" in labor arrangement and compensation. All this has reduced the attempt to depoliticize

state enterprises to a futile exercise. It has neither disengaged politics and management nor unleashed the arrested growth of organizational productivity. Thus a decade after the commencement of the enterprise reform (since 1984), China was still in search for an effective managerial mechanism which would allow state firms to take advantage of the market and contribute to its economic ambition, and meanwhile satisfy its commitment to socialism.

SUMMATION

When China entered the post-Mao era, its leaders were anxious to pull the economy out of a severe depression, an aftermath of the 20-odd years of political upheavals, and to rebuild the nation's confidence in socialism and the leadership of the Communist Party. To reach the goal, they switched the focus of concern from revolution to production and declared that the foremost task of the nation for at least an entire century would be to develop productive forces primarily through stimulating efficient performances of state enterprises. While they might have differed among themselves as to what approaches China should take to build a profitable industrial sector, they all seemed to agree that the political-economic continuum should be shattered so that enterprise production could follow the inherent laws of economic development. For this purpose, they inaugurated the economic reform in 1978. By 1994 they had already allowed the market to enter many of the domains that had formerly been controlled by state plans. Along with the changes, post-Mao leaders had also tried hard to decentralize to enterprises the decision-making power over operation planning, resource procurement, product marketing, and profit allocation. Further, they tried to place managerial staff in the

central position on the factory floor, and encouraged them to draw on managerial concepts and practices developed in market economies.

Yet while they were willing to yield to the "invisible hand" and were resolute to use efficiency and productivity created by free market systems for reference, post-Mao leaders were not inclined to let changes in state enterprises touch the essence of the existing production relations. In other words, acknowledging that market economy is pertinent to China's socialism at its "primary stage" is meant only to "have the micro sector of the economy operate according to the capitalist rules of the market."⁵⁴ At the macro level, Chinese leaders remain steadfast to socialist principles, in particular the public ownership system and universal prosperity. This noncompliance to the capitalist mode of production may be attributed partly to their ideological commitment and partly to the fact that the institution of socialism is not only the result of their leadership but also the justification of its legitimacy.

Economic rules and procedures of a given society, however, are inseparable from its institutional settings. Post-Mao leaders' effort to blend the economic measures and management practices of market economies with China's socialist institutions has therefore not been effective up to the present. Their recommended market levers do not seem to function well in state enterprises characterized by public ownership and the dominance of the working class. Adding to the problem is the attempt to "reconcile" socialism and the market by stretching the conceptual framework of the former so that the latter might fit in. As Marxian socialist concepts were originated from the denunciation of those of the free market system,

the "stretching" effort has given rise to many conceptual and operational confusions which frustrate the function of the market mechanism and the implementation of the manager responsibility system. To add "socialism" to the attempted market economy, in conclusion, implies the institutional continuity and determines that the institutionalized modes of conduct and articulations that comprise of China's socialist system and were formulated in the Mao era still instruct the power relationship among managers, Party officials, and workers in state enterprises, and condition their respective responses to the market.

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CHAPTER 4

MANAGERS' RESPONSIBILITY VERSUS WHOLE-PEOPLE OWNERSHIP: AN INSTITUTIONAL CHALLENGE TO MANAGEMENT REFORM

To rationalize the economic reform, post-Mao leaders have echoed the economist doctrine that "the development of the productive forces is the panacea for the solution of all other problems, not excluding the problem of building socialism."¹ Yet while seeking to "liberate" China's "backward" productive forces, Chinese leaders have also admonished the public that the on-going "second revolution" is different from the first one because it will not touch the essence of the existing political order. The target of attack is, instead, the established economic structure; and the primary theme is to liberalize the economy by effecting a transition from planning and the Party-state's administration to market regulations.

In state enterprises, this transition is expected to increase managers' autonomy and responsibility in production and administration as a stimulus for improved productive efficiency. To mitigate the innate disagreement between socialist organizational principles and the pursuit of profit-centered market rules, and between whole-people ownership and the imposed control of individual professionals, post-Mao leaders have resorted to the scheme of "separating politics and administration." As a convenient ploy, this scheme is attempted to allow China to take advantage of the market and managerial mechanisms developed under capitalism and meanwhile keep its socialist polity intact.

Yet the separation effort in state firms has been crippled by the issue of ownership. Post-Mao China's persistence in the socialist ownership system not only problematizes managers' command on the factory floor and their market freedom at

both the conceptual and operational levels, but continues to subject them to challenges of socialist practices derived from and sustained by whole-people ownership. Moreover, since the perpetuated commitment to Marxist socialism requires changes and revised perceptions of the organization and management of state enterprises to be explained in Marxist terms,² public discussions on the ownership issue are still conducted within the frame of references outlined by Marxism. In such a context, enterprise operation is not likely to stay outside socialist beliefs and values and respond to market demands and returns only.

SEPARATION OF POLITICS AND ECONOMICS: INTENTIONS AND PROBLEMS

MANAGEMENT AND ADMINISTRATION REFORM

Like their colleagues in the Mao era, post-Mao leaders insist on the Marxian observation that the motive power of history is the interaction of production relations and productive forces. According to their orthodox reading, productive forces define the nature and direction of the evolution of production relations, but their own progress also responds to reactions of production relations. It thus follows that when production relations in a given society no longer complement the development of productive forces, social transformations are generally in order. In the course of the change, existent production relations and their patron, the old superstructure, are replaced by alternatives that are conducive to the development of productive forces. Society then advances.

Yet unlike their predecessors, whose emphasis on the dialectical relationship between the two aspects of the economic basis was meant to justify the necessity

of a revolution, post-Mao leaders' commitment is intended to rationalize their attempt to scale down the socialist transformation for economic development. This, however, does not suggest that they seek to abandon socialism and communism as their ultimate goals. In fact, they have proclaimed time and again that present deviations from the orthodoxy are only expedient measures for eventually reaching the full-fledged phase of socialism. They have thus made it clear that the current "revolution" differs significantly from those envisioned by historical materialists because it does not involve any fundamental change in China's political order. While taking pains to stretch the limit of the orthodox tolerance, they stand especially fast on two terrains of socialism: the dominance of public ownership; and prosperity shared by the whole populace.

Within the political confines, the essence of the "second revolution" as Deng Xiaoping—the acknowledged architect general of the reform—has specified, is to strengthen the legitimacy of the Party and the State, overcome bureaucratism to raise work efficiency, and mobilize the initiative of the grass-roots establishments and the people.³ Given that the first goal does not effect any change from the status quo and the third one is in keeping with the long-standing policy of the mass line, the reform boils down to an administrative transformation.

Chinese leaders have always blamed the low efficiency and productivity of enterprises on bureaucratism. This age-old culprit is portrayed as

standing high above the masses; abusing power; divorcing oneself from the reality and the masses; putting up a facade; indulging in empty talk; sticking to a rigid way of thinking; following conventions; overstaffing administrative organs; being dilatory, inefficient and irresponsible; failing to keep one's word; passing documents round without solving problems; shifting responsibility on to others; and even assuming grand airs as bureaucrats, reprimanding others all too often, attacking others in revenge, suppressing democracy, deceiving one's superiors and subordinates, being arbitrary and despotic, practicing favoritism, offering bribes, participating in corrupt practices in violation of the law, and so on.⁴

Politicians both in and after the Mao era, however, have approached the problem in different ways. Mao and his associates sought for solutions in the "unity of politics and economics." They believed that a mutually complementary relationship could be developed between "the economy and politics in society in general and between the economic and political roles of the enterprise in particular."⁵ Their strategy was to urge political activists to familiarize themselves with professional skills and technical know-how necessary for managing production and economic operations. They expected that once these political generalists, primarily recruited from the Communist Party and its military after the first revolution, became both "red and expert," they would be able to attend ideological and political objectives of the socialist regime as well as manage the economy according to its inherent law. Success in this regard was especially important at the enterprise level due to the important role of state firms in China's efforts to industrialize and reinforce socialism.⁶ Not only were they obliged to afford a solid base for national economic development, they were also expected to turn the government's political objectives into actions of the general public through exertions of their large groups of Party members (as industrial enterprises were considered a major recruiting pool of the Communist Party).

Yet these politically reliable administrators and managers failed to identify a "golden mean" for politics and economics to merge. In the environment characterized by "class struggle," they were, instead, found overemphasizing politics at the expense of economic development, or bending the political stand when the economy was in stagnation. Their swinging between the two extremes therefore contributed little to the long-standing anti-bureaucratism effort.

The post-Mao leadership seems to have learned a lesson from the vain "unity" attempt and has adopted an opposite approach: "separation." According to Deng Xiaoping, the obstinacy of bureaucratism and low efficiency are structural problems which result from over-centralization of power in the Party. He complains that its branches throughout China "have taken charge of many matters which they should not and cannot handle or which they cannot manage effectively."⁷ The solution to this problem is hence believed to lie in the detachment of politics and economics, or the Party and administration. Specifically, at the macro level, this approach champions permitting the economic sector opportunities to benefit from mechanisms of the free market and promises not to erode the socialist socio-political order and the Communist leadership. At the operational level, the strategy is to limit the Party's leadership to making general principles and policies for national economic development. Professionals, on the other hand, are to control economic activities and optimize them through their knowledge of the market and their expedient responses to supply-demand changes.

JUSTIFYING MANAGEMENT REFORM WITH THE "SEPARATION" SCHEME

The effort to separate politics from administration in the public industrial sector is meant to elevate the status of managers on the factory floor. Specific procedures include, first, disengaging Party organizations from the practical control over the enterprise. Next, state ownership should be subdivided into the proprietor's legal rights and the enterprise's economic rights so that managers can decide the disposal of means of production owned by the whole people. Finally, the dominant position of the working class on the theoretical and constitutional plane should be separated from the manager's authorities in practice legitimized by the Enterprise Law. The essence of the "separation," in conclusion, is to redefine state firms as pure economic bodies rather than political and administrative extensions of the state power and bureaucracy. This effort is expected to create a political climate and physical conditions expedient for the implementation of the manager responsibility system and to accelerate the entrance of enterprises into the market as independent and accountable commodity producers.⁸

Official rationale for this attempt commences with the thesis of "primary-stage socialism."⁹ The doctrine rules that China has to be industrialized, otherwise there do not exist socio-political-economic conditions for Marxian socialism to evolve. This is because socialized production ushered in by industrialization is denoted by Marx as the precondition of the public ownership system and planned economy. As China has not yet attained this mode of production, the development of its productive forces should merit greater emphasis, and programs constructed

for development should also be established on "objective" economic factors rather than on socialist ideas or political decisions.¹⁰

Primary among the "objective" factors are expanded market forces.

Although state plans continue to play an important part in China's economic development, Chinese leaders and their assistants in government think tanks and the academic circle have radically changed their definition of the market. The "invisible hand" is no longer accused of being partly accountable for the anarchic state that characterizes production in the capitalist world. It is instead complimented as a decisive power in advancing the productive forces of countries practicing it. Their most often heard reasoning goes that since the market has placed most industrialized countries in advance of nations with other systems in efficiency and productivity, its concepts and operations must accommodate the objective law of economic development. Hence the conclusion that even if China could overstep the phase of developed capitalism and enter the primary stage of socialism, it cannot disregard the positive role of the market in promoting and monitoring its economic growth.

Proceeding from such a reasoning, the proposition of separating politics from administration at the enterprise level only seems logical. For, once the market element is interjected into China's economy, state patronage to enterprises would terminate, and enterprises would have to compete for survival and prosperity. Expected to respond to market signals for opportunities and scarcity, they should not be regulated by mandates from the Party but by economic laws and market rules. By the same token, the politics-economics dichotomy redefines management

as an institution of expertise based on "scientific" and "objective" principles and methodologies. The managerial body should thus be staffed by professionals with technical competence and special knowledge necessary for managing physical and human resources. In the enterprise's intense competition for thriving in the market, the Party committee's leadership as a political and class-oriented organization on the shop floor should become "irrelevant." Party officials should therefore yield to technocrats who are skilled in initiating profitable projects and plans to maximize returns. Party officials are also consoled not to take offence about the power shift on the shop floor, for Lenin once said that a most competent revolutionary was not necessarily a good manager qualified to steer the whole process of production with up-to-date scientific and technical achievement.¹¹

Along with the effort to expand the autonomy of the enterprise and the control of the manager and to stimulate their appetite for profits, the official definition of the word "profit" is also changed. No longer an exploitative source of accumulation, it is now interpreted as an accounting means of efficiency indispensable for economy of any nature.¹² Also, as profit has to be realized in the market, the most energetically recommended entrepreneurship includes qualities such as acute responsiveness to market signals and a sense of cost-effectiveness in managing physical and human resources. For the enterprise to survive in an increasingly competitive environment through maximizing profits, it is suggested that management learn from its counterpart in capitalist market economies and concern itself mainly with

material consumption rates, quality indexes, ratios of profits to gross output value and to fixed and total capital, rate of cost reduction, period of turnover of working capital, and ratio of actual to planned completions of capital construction projects.¹³

Once the existence of the market economy in China's primary-stage socialism is accepted, economics is excused from the political landscape, and management is regarded as a profession, a conceptual and institutional space is created in which it is justifiable "to study foreign administrative systems and borrow their practices without caring for the constitutional or political reasons behind it."¹⁴

The thesis of primary-stage socialism asserts that although markets began to function as early as exchange and trade emerged in the human society, capitalism should be credited for the perfection of the institution and for bringing its dynamic functions to their present scales. It is thus only natural for China to introduce from market-oriented countries "advanced" concepts and "effective" mechanisms since its economic system is ruled to incorporate both plans and market.¹⁵ Following the proposition are loud assertions that managerial skills are ideologically neutral,¹⁶ and that to make imported "hardware" produce capitalist efficiency in state enterprises, Western management theories and practices should be emphasized in on-the-job training for managers or MBA equivalent programs. "Scientific management" is also promoted to replace the Maoist two-way participation, i.e., workers participating in management and managerial personnel in labor. Some provinces even have hired retired Western managers to manage state-owned enterprises.¹⁷

CONCEPTUAL AND OPERATIONAL DOWNFALLS OF THE "SEPARATION" SCHEME

As noted earlier, China's attempted "separation of politics and economics" is translated into "separation of Party and government," or "separation of politics and administration." Its primary concern is to increase the responsiveness, accountability, and efficiency of administration at all levels, especially state enterprises. In the latter case, the effort proposes a scenario in which the Party looks after the ultimate ends and accordant principles and policies, while management takes charge of advancing means for their realization. Yet in their eager search for "good" lessons from the West, Chinese policy makers and their think tanks have overlooked the unsuccessful experience of the American reform of public administration since the mid-19th century. The apparent resemblance of issues involved in the two distinct debates over proper administration approaches should, however, render the American experience a useful reference for China's current experience.

Advocating separation of politics and administration, American reformers argue that administration "lies outside the proper sphere of politics. Administrative questions are not political questions. Although politics sets the tasks for administration, it should not be suffered to manipulate its offices."¹⁸ These thinkers hold that if administration is taken out of politics, the American bureaucracy will become "politically neutral, professional, morally irreproachable and efficient...."¹⁹ Once separated from administration, American politics is likely to be reciprocally purified. Working in such a context, the ideal administrators for

these reformers would consciously stay away from political activities and act objectively for the public rather than for special interests.²⁰

A serious problem with this solicitation for divorcing "the expression of the will of the state and the execution of that will," as many critics have pointed out, is that "public administration is closely intertwined with, and dependent upon, the nation's political institution, traditions, and ideals in a general sense."²¹ It is very difficult to draw a line between political ends and administrative means. Moreover, as "a branch of politics," administration is expected to demonstrate a full awareness of political objectives. Otherwise it will unlikely be accepted as the appropriate medium for their fulfillment. In the continuum of "means" and "ends," the latter are also unlikely to leave their own execution exclusively with the former without "supervising" the former's performance.²²

The fact that, in the language of public administration, "politics" also includes policies makes it more difficult to effectuate the intended separation. The "will of the state" is not expressed merely by official ideologies or political principles. It is also imparted through policies. Although policy roles in the public sector may be divided into the segments of formulation and implementation, their interactions as two integrals may not be avoided. On the one hand, specific operational programs are expected to reflect and be instrumental to general policy mandates. On the other hand, policy makers would most assuredly persist in monitoring the responsiveness and accountability of the implementation sector.²³

Another problem with the separation argument is its assumption that once politics and administration are detached, the efficiency of the bureaucracy will

increase. Yet efficiency does not exist in a value-free context. As Dwight Waldo defined it, efficiency

prescribes a relationship (ratios or proportions) among parts of the value system; it receives its "moral content" by syntax.... Things are not simply "efficient" or "inefficient." They are efficient or inefficient for given purposes, and efficiency for one purpose may mean inefficiency for another.²⁴

In other words, even if "efficiency" by itself could be politically neutral, when the question "efficient for what?" is raised, references against its measurement immediately become value-laden. Thus the separation proposal which make "efficiency the fundamental value upon which the science of administration may be erected must be rejected."²⁵

If the attempt to dichotomize politics and administration has proved problematic in America whose founding fathers made separation of powers the foundation of the government both at the philosophical and operational levels, the Chinese version of separation is likely to amount to wishful thinking. Not only does China face the the same issues encountered in the American reform, but its insistence on crowning the intended market economy with socialism intensifies these issues and directly counteracts efforts to effect a separation between the two spheres.

Initially arising from inquiries into production relations embodied in social economic activities, Marxian socialism fundamentally negates the thesis that economics can be separated from politics in the construction of the state. Both as an ideology and social practice, socialism is built on the premise that the economic system, or the mode of production, of a state defines its political order, legal and

moral codes, and ideological and religious beliefs, and on the premise that its economic development also responds to reactions of these different aspects of the superstructure. Given this interdependent nature of politics and economics presumed by the Marxian persuasion of socialism, the Chinese leadership's intention to maintain its socialist orientation lands its separation attempt in a dilemma. That is, while it may serve as an expedient mechanism for utilizing the market to stimulate economic growth at the micro level, the separation scheme is contradictory to the fundamental dogma of socialism with regard to the relationship between the economic basis and the superstructure. Yet without the scheme, the validity of the reform itself would become untenable unless the leadership could come up with plausible explanations for how China's socialist institutions could withstand the effects of the attempted market economy fashioned after concepts and practices of free enterprise.

As may be expected, this innate conflict of the separation scheme transcends the theoretical realm and frustrates its implementation. Specifically, the perpetuated ideological commitment implies that China's administration reform is not to rupture the socialist framework. Conducted within this confinement, the reform cannot possibly effect any radical institutional changes in ownership and distribution. Embodying the essence of China's socialist system redefined as the dominance of public ownership and all-inclusive prosperity,²⁶ state enterprises and management are bound to find themselves continuously restrained by institutions of socialism and unable to concentrate on maximizing market returns and economic growth.

For example, if enterprise management is to enjoy full administrative authority, its rights to state-owned assets need to be defined. Its autonomy in planning production and allocating physical and human resources also necessitates clarification of its relationship with labor, the designated masters of what it manages. Moreover, if managers are expected to stimulate competition among workers through the commended disparate income system, measures that reflect the principle of "prosperity for all" must be specified. Finally, in order for managers to optimize the arrangement of work force for maximum profits, issues such as whether labor is a commodity and whether workers can simultaneously be both "masters" and wage laborers must first be settled. Otherwise, few managers would feel comfortable in modifying the size of their work force in accordance with market demands and in utilizing the labor market as a reserve of both surplus and recruitment.

It is obvious that Chinese reform architects do not intend to answer these questions and hence have worked out the separation scheme. They seem to expect that the scheme will enable them to stretch basic socialist principles so that institutions built thereon may acquiesce to concepts and practices originated under a free market. Yet rather than settling issues mentioned above, this separation effort continues to breed conceptual controversy and confusion which translate into perplexity and overcautiousness by management operating at the front line of the reform. If the politics-management dichotomy is an appealing conceptual device for the post-Mao leadership to diagnose causes of low industrial productivity, it does not seem able to prescribe any remedies for the illness.

OWNERSHIP BARRIER TO THE MANAGER RESPONSIBILITY SYSTEM

ADVANCED PRODUCTION RELATIONS BUT BACKWARD PRODUCTIVE FORCES: AN EXCUSE FOR ADJUSTMENTS IN PUBLIC OWNERSHIP

Post-Mao leaders are obviously aware that a major problem in the unavailing separation scheme in state enterprises is the ownership issue. For, acknowledged as the foundation and representation of socialism, the system of whole-people ownership effected through the state obliges enterprises to wait on China's socialist order and observe socialist norms in their operation. The ownership issue thus challenges the legitimacy of the reform's aims of freeing management from the interference of the socialist regime and, more importantly, allowing individual professionals and technocrats the autonomy to arrange assets owned by the whole-people according to their judgment of the market. To solve the problem and justify the responsibility system in state firms, post-Mao leaders have encouraged the intellectual creativity of theoreticians and economists in modifying the structure and conventional perceptions of the socialist ownership system since the mid 1980s when the enterprise reform was commenced. Eager to see managers able to best deploy public resources to procure optimal market returns while being accountable for the well-being of the enterprise, they have actually headed the deliberation with their criticism of the "uncoordinated" development of production relations and productive forces in the Mao era.

Post-Mao leaders find no fault with the radical shift of ownership through nationalization after the revolution to raise resources for economic development. Yet they blame the then leadership for rushing the socialization process after the initial target was reached in 1956. The reportedly ill-judged development strategy

of overemphasizing the transformation of production relations is charged for holding back the development of productive forces for nearly three decades after Chinese Communists took power in 1949. The resultant grim social and economic reality that existed at the advent of reforms is represented by 80 percent of the population working manually in the fields, industrial technology and equipment lagging behind the up-to-date achievements by a few decades, and illiteracy or semi-illiteracy plaguing one-fourth of the people.²⁷

Post-Mao leaders claim that the anxiety for a hurried establishment of an absolute public ownership system indicated that policy makers in the Mao era ignored the Marxian doctrine that production relations are social relations formed through human interactions in their material productive activities.²⁸ To correct this "mistake" and narrow the "gap" between the two aspects of social production, post-Mao leaders have argued for a scale-down of the "unproportionally advanced" production relations, especially socialist ownership. For the "still backward" productive forces to catch up, they have thus encouraged the existence and growth of private businesses and opened up the Chinese economic sector to foreign capital. Furthermore, they have called upon government think tanks and the intellectual circle to make inquiries into possibilities of readjusting the state ownership system. Their positive attitudes and tolerance towards trial practices in this regard attest to their awareness of the importance of the ownership issue in the management reform and the economic restructuring as a whole. State firms are key production units sustaining China's national economy. They embrace all the principal factors of productive forces: means of production including technology, objects of labor, and

laborers equipped with technical and vocational know-how. They also constitute the single production establishment in China that embodies the major ingredients of Marxian socialist production relations: absolute public ownership; plan-controlled or monitored production, relative equity in income distribution; and worker-centered management.²⁹ Therefore, any conceptual and operational breakthrough should, in its intended readjustment of state ownership, bring China closer to establishing a "socialist market" economy.

RATIONALE OF THE INTENDED DETOUR FROM SOCIALIST OWNERSHIP

Although post-Mao leaders are never hesitant about examining their commitment to socialism, their commended ownership readjustment in state enterprises represents a withdrawal from the established socialist mode of production familiar to the general public. This "detour," moreover, will also affect many people's lives and work. Thus justifications for its validity are required. To minimize potential resistance, Chinese leaders and their assistants again resort to the Marxist persuasion of political economy for excuses.

They assert that the founders of Marxism proposed three forms of public ownership—by the whole society, by the state, and by collectives. Yet since they share the same root, the essence of these different forms is identical: elimination of exploitation; scientifically-planned social production for proportionate development; equal rights of laborers to work and to manage the means of production; and the growth of productive forces. To depart from these fundamental principles means to depart from the public ownership system. To uphold the principles, contend Chinese leaders and their intellectual council, does not, however, signify a dogmatic

application of the specifics of the commended forms. They argue, furthermore, that Marxist authority conceived these forms from its perceptions of socio-economic conditions of selected locales at its time, and hence these forms should not be treated as an immutable gospel or expected to fit all countries at all times. Modifications and adjustments of the forms by individual countries at different phases of their socialism are necessary to best reflect the essential principles of the public ownership system.³⁰

According to these Chinese, the legitimacy of the reform is also justified by the relationship between ownership and productive forces. They expound that a given form of an ownership system should be compatible with the level of productive forces at a given time in order to facilitate the latter's advance. In reality, however, the compatibility is only relative, and constant adjustments of the form are unavoidable. Yet as the relativity is hardly quantifiable, it should be assessed by how productive forces progress. When they move ahead steadily or intermit with only a few ups and downs, it is safe to assume that the prevalent form(s) of ownership basically suits their conditions. Yet if progress lingers at a very slow speed, or stagnates, or registers an extraordinary backslide, a change of ownership should be called upon.

Going into details, these Chinese argue that this change may be incremental, a part of the whole, and the process may cover a long period of time. Or, it may be "rushed in" through revolution and enforced nationalization. When "rushed in," as happened in China, the new ownership is usually not allowed the time to evolve through the stages from birth to maturity. Lack of conformity of the new ownership

with productive forces is thus inevitable. This problem, however, is often concealed by the fact that development of the productive forces may not be slow during the initial post-revolution period, as was the case in China. This development momentum may be maintained primarily by the authority of the new socio-political order, whose protection the new ownership certainly needs for its existence, adjustment, and development. Yet if people overlook the forceful role of the political order and think that the initial economic progress is the achievement of the new ownership, they will ignore the necessity to improve the ownership. In the course of time, the momentum of progress may abate. To refuel the progress, changes to the ownership will have to be made.³¹

Yet Chinese leaders are quick to note the fact that the development of productive forces never came to a standstill or backslide in the Mao era. According to them, this proves that the prevailing public ownership system basically suits the country. Therefore, only moderate changes are necessary for accelerating the economic growth. This means that the proposed ownership readjustment, as with many other reform procedures for state enterprises, amounts to no more than an attempt to loosen the socialist confinement and create some space for the market. Such a restriction is obviously out of political concerns because any change in state ownership carries with it the potential to erode the very foundation of China's socialist system and the authority of the Communist Party. The problem of the precaution, however, is that the readjustment effort has not led to any conceptual or operational breakthroughs in the ownership issue to justify and direct the management reform. Although the rather convincing rationale put forward by the

leadership for the ownership readjustment has provoked suggestions from government think tanks and academia, few proposals have even vaguely implied to switch state enterprises to other types of ownership. Continuing to operate amidst confusion arising from an intended free market economy without private ownership and single-person management of whole-people-owned assets, managers have either tried to avoid political controversy and liability by compromising with market rules or by making the most of the situation for personal gain. In either case, the expected scenario of state enterprises becoming profit-conscious corporations and remaining politically accountable for the socialist regime has not emerged. On the contrary, by the end of 1994, only one-third of state enterprises were making a profit, while 34.3% were still operating in the red.³²

OWNERSHIP READJUSTMENT PROPOSALS

Think tanks of the post-Mao leadership and many other scholars have come up with quite a few readjustment suggestions. Yet only five of them seem widely discussed in Chinese literature. These include "separation of the state's legal rights and the enterprise's economic rights over the means of production"; "enterprise ownership"; "share holding by the state, the enterprise, and workers"; "'private' ownership by all employees of an enterprise"; and "share holding by the entire populace." The following sections overview the contents and justifications of each proposal.

Separation of the State's Legal Rights and the Enterprise's Economic Rights to the Means of Production

This commonly accepted proposal advocates that the state reserves absolute proprietorship over public assets on behalf of the whole people but leaves enterprise management the disposal rights. Specifically, the manager can use the resources mustered in the enterprise to buy shares and invest in other enterprises, to issue bonds to raise funds for the firm, and to use retained profits for its technical renovation, bonuses, and welfare services for employees.³³ The merit of distinguishing the two different types of rights is said to allow enterprises adequate autonomy and flexibility to conduct daily business while keeping the state in the position of overseeing the increase of public assets and superintending the entire economic development.

To restructure the public ownership system in this manner also reportedly fits the present situation of China. For at its adolescence, China's socialism encloses in its immature economic system three distinct forms of ownership: the whole people, the collective, and the private. Although their status is different in the priority hierarchy, business interactions among corporations of these ownership forms are inevitable and should be expected to increase as the government takes a liberal attitude toward the development of the market. This requires that state enterprises enjoy similar decision-making power as their counterparts in production-related affairs. Otherwise, they cannot compete with corporations under other ownership systems, or among themselves, on the market.³⁴

This separation proposal speculates that in the future, even when public ownership engulfs the other forms and becomes universal, distinguishing between

the proprietary rights over public assets and the rights to their disposal will still be necessary. The reason is that as long as commodity production exists, enterprises will need independent decision-making power and rights to dispose of society-owned material and human resources in order to promptly respond to market signals and be engaged in competitive production.³⁵ At the primary stage of socialism, however, these rights are allegedly more important. With the whole Chinese society theoretically having an equal status in relation to the means of production, the rights to independently arrange the means and enjoy part of the profits become an immediate incentive for state firms to throw themselves into commodity production. Once enterprises are motivated to procure earnings for themselves, within justifiable limits though, the well-being of society will also be attended and amplified in the process of their dynamic production.³⁶

Enterprise Ownership

This proposal suggests the substitution of ownership by the whole people through the state to that of the state enterprises. According to its champions, if staff and workers of a given state firm jointly own the capital therein and self-govern the production, marketing, profit distribution, and consumption, they would physically sense their status as masters of the enterprise. This would, in turn, motivate them to work efficiently and be concerned about the economic prospect of the enterprise as it is pertinent to their individual well-being.³⁷

To legitimize the proposition, people lobbying for the proposal make references to Marxist discussions on how the value of commodities is formed and how it is incremented. They argue that the value of a means of production owned

by the whole people but consumed by an enterprise is translated into the value of products through production. Yet without the facilitation of active labor, this transfer could not be materialized. Also, the value of a means of production does not rise in the process of transfer. The incremented value of a product can only be effected by labor and should thus be credited to the laborer. Furthermore, as deductions are made from the incremented value and transferred into fixed capital of the enterprise through reinvestment, the reinvested value and taxes collected from the enterprise should enable it to gradually pay off the means of production originally invested in it by the state. Once the payment is complete, all the assets in the enterprise should become the property of its employees. Of course, note these people, the state may decide the time span of the mortgage payment and how long owners of public assets can freely possess the surplus labor of individual producers. This proposed switch of ownership, however, is believed not applicable to state enterprises managing facilities of the infrastructure or engaged in production of essentials for the national economy or people's livelihood. They should remain the property of the whole people and be controlled directly by the state.

The Share-Holding System by the State, the Enterprise and Workers

Similar to the proposal emphasizing enterprise ownership, the share-holding program also asserts that, once becoming shareholders of an enterprise, both management and workers can be expected to operate more efficiently and be more answerable for its performances. This is because the shareholder status not only entitles them to participate in making decisions on production and earnings, but also exposes them to risks of losing their capital if mismanagement or misconduct

occasion. Being co-owners of an enterprise may also help refrain both management and workers from seeking prompt returns regardless of consequences or the long-term impacts of their performances. This is a problem that has haunted state firms since the installation of the contract system. For their individual economic interests, managers would have to rationalize their economic behaviors on their own initiative.

Likewise, the aspiration for sustained growth of their wealth would result in workers' spontaneous and effective supervision over management through either the shareholders' congress or the stock market. No longer an appendage of the state bureaucracy, enterprise management would have to base its budget and production on market demands, which may effect a radical cure of the chronic obsession with frenzied expansion of investment and consumption. All this would ultimately lead to a more rational allocation of societal resources and standardized interactions among the interests of state, enterprises, and workers.³⁸

"Private" Ownership by All Employees of an Enterprise

This proposal is based on the same incentive and efficiency arguments as the share-holding system and enterprise ownership but intends to carry the reform further away from the conventional public ownership system. Asserting that workers are the masters of enterprises and their labor creates value, it pushes for distributing capital and gains of state firms among their employees as private property. The proposal, however, does insist that the distribution should reflect the equal social status and rights of workers and staff in all enterprises and make sure that each of them has a fair and equitable share of the assets. To accomplish this mission, the following procedures are suggested.

First, the assets in each enterprise should be thoroughly inventoried. Next, across-the-board comparisons of labor involved in production activities of all trades and enterprises should be conducted to determine and rank the base shares which laborers in them would be entitled. Finally, calculations and decisions would be made on a specific portion of the assets of a given enterprise for an individual worker there. If assets under the command of a given enterprise were found to outweigh the total shares to be universally distributed among its workers, the ownership of the excess should be turned over to the state. The latter may, in turn, use the excess to balance the labor-based distribution of capital among the entire host of laborers.³⁹

The Share-Holding System by the Entire Populace

Lastly, this proposal is advanced to consolidate the merits but remedy the defects of the three ownership systems mentioned above. While acknowledging their potential for stimulating state enterprises to improve efficiency and productivity and compete for survival and prosperity on the market, it points out that none of the three systems is a fair program. It argues that for three decades after Chinese Communists took power, the government gave the absolute priority to the state industrial sector and buttressed it with the surplus transferred from other sectors. It is therefore not an exaggeration to assert that state enterprises' assets and technical competency embody contributions of laborers in other walks of life. Also, within the enterprise, not only workers presently employed, but those who are retired, transferred, or deceased, should be credited for the material and technical wealth as well. Proposals which ignore the efforts of previous generations and their

services or marginalize their importance by dividing societal assets aggregated in enterprises only among workers on present payrolls, do not comply with the fundamental principles of the public ownership system. To recognize contributions of all laborers and permit them equal accesses to their deserved shares of the public assets, a universal share-holding system is proposed.⁴⁰ Suggested tactics for this gigantic and complex program are as follows.

First, the state should take inventory of the entire means of production dispersed in industrial enterprises and agricultural establishments. Next, subtractions should be made from the total amount for enterprises which should remain under the control of the state because of their direct bearing upon people's livelihood and the national economy. The rest should then be divided by the entire working population to determine the due share of each laborer. Finally, the state would distribute allowances to individuals in the form of deeds marked for investment in one of the three categories: agriculture, collective firms, or whole-people-owned enterprises. As a norm, rural residents would be granted the first kind and urban dwellers the other two. They would become shareholders of an economic entity as soon as they invest their allocations through agencies of their assigned share-cash-in districts established by the state on the basis of the distribution of economic zones and productive forces.

Within the prescribed category and district, urban individual laborers could freely choose an enterprise to exchange their deeds for shares. The state should, however, regulate the exchange process to prevent deeds from being traded at the stock market. It should also ensure that shares issued by enterprises would not

exceed their estimated total fixed assets. The shareholders' congress should then convene to appoint the board of directors which, in turn, would invite and review applications for the position of manager.

In the distribution phase, the state would not be a beneficiary of dividends but would levy taxes on enterprises for its revenue. To ensure fair competition, the state should take away differential profits obtained by enterprises because of advantageous production conditions. Also, to avoid excessive income disparity, it should establish proper ratios between dividends according to shares and according to work for each trade. An alternative in this capacity may be for the state to affix minimum wages for different jobs and ranks. Moreover, the state should specify proportions of profits that enterprises should reserve for the purpose of improvement and expansion of production. Enterprises would be obliged to observe the regulations.

CONCEPTUAL AND OPERATIONAL CONFLICTS INHERENT IN THE PROPOSALS

Active discussions on the public ownership system may have disclosed the intention of the post-Mao leadership and its intellectual assistants to adjust China's socialist institutions and remodel state enterprises into apolitical profitable producers. Yet the well-weighed arguments of the proposals disclose post-Mao leaders' political conviction and reluctance to explore the issue of integrating socialism and free market which circumscribe the reform attempt. Pulled by the urge to employ economic incentives for higher productivity and norms of Marxian public ownership, the afore-mentioned programs fail to develop substantive agendas for implementation. Their sketchy designs do not define or regulate interactions

among the state, the enterprise, and the individual in exercising their respective authorities over public resources. Nor do they elaborate on their liability for potential encroachment on each other's rights and interests, or on public assets. Lacking substance, the proposals are of little feasibility or service to the development of a viable reform agenda for state enterprises.

One fundamental problem with subscribing to the Marxist discourse of socially joint ownership is that the legitimacy of the enterprise's and laborer's privileges to public assets, the heart of the ownership reform, immediately becomes an issue. Drawing support from the Marxist tenet that capital, despite its origin, evolves to assets that are accumulated by workers' surplus labor in the process of production and hence should be owned by them,⁴¹ arguments for the entitlement of the enterprise and the laborer overlook a critical point, namely, whether Marx implies ownership by workers as a class or as individuals. If his comprehensive expositions on class struggle and on state ownership as a primary expression of socialism before the nation state withers away are believed in favor of the former, the afore-mentioned proposals as well as the ownership reform itself are untenable in theory. Should they be interpreted to mean the latter or both, connotations of "public ownership" merit detailed clarification before its forms, beneficiaries, measures to coordinate their interests, and procedures for accountability may be developed. Yet resorting to the strategy of dichotomizing politics and economics, both the leadership and designers of the proposals choose to sidestep this conceptual challenge. Their creations are thus left too obscure for execution.

A more conspicuous problem with upholding socially joint ownership is that, contrary to their asserted objective to free the enterprise from the state's mandatory control, the proposals, if put into practice, would likely perpetuate and reinforce the state's authority over industrial firms. For example, by keeping the "whole people's" status as the legal owners of the means of production inviolate, the tactic to separate public ownership into legal and economic rights protects rather than withholds the state's legitimacy to intervene in enterprises' decisions on public assets supposedly at their disposal. This is partly because it is simply impossible for the "whole people" to look after their property entrusted with an individual enterprise and hence the state must remain the personified guardian of public resources, unless the "whole people" select a different agent. Another reason is that even if ownership could be divided into different types of rights, the "legal proprietary rights," which the separation proposal has assigned the state, would still justifiably override the other "rights."⁴²

Similarly, the proposed enterprise ownership, employee ownership, and share distribution among the state, the enterprise and the laborer, allow the state to hold the balance among all the potential parties involved. Under the first two systems, for example, the state would not only have the final say in when they should be put into effect at one end of the process; it could also shape their results at the other end by manipulating its rights to set procedures and standards for their implementation. With regard to the share-holding system, the state would likely have more shares than the other two parties put together as the system does not intend to challenge the dominance of public ownership in China's economy. The

state's prominent position may prove especially true in the case of large and medium-size enterprises where fixed capital and output values significantly exceed the maximum amounts of shares any across-trade/enterprise measures would allow a firm or worker. Being the primary shareholder in these enterprises, the state would expect its will to be represented in production and management of these enterprises. Such requests of the state would also likely be legitimate and enjoy legal protection.⁴³

The problem of state intervention is self-explained with the proposal of whole populace holding shares. Under this hypothetical system, state agencies would decide who should get what share deeds and in which districts they could cash them. State agencies would rule on which portions of profits were made by factors other than workers' efforts and efficient management and should hence be turned to the state. State agencies would also have the privilege of supervising dividend distribution and profit allocation. If state agencies are expected to be involved in decisions regarding the input and the output of the enterprise, their influence would not likely abide only at both ends of the production continuum without incursions into the whole process. Moreover, decentralization often typifies, intentionally or otherwise, an organizational swell of the state bureaucracy. Given the unprecedented scale and complexity of the "whole people holding shares," this proposal portends a dimensional expansion of state agencies accompanied by their demands for functions and revenues. Enterprise management could not possibly have more decision-making power than what they enjoy now. Finally, reserving an influential position for the government in production and management, the

shareholding system would be continuously plagued by the challenge of differentiating between legitimate interventions of state agencies and their violation of enterprises' designated rights. Since a feasible and balanced measurement is almost inconceivable, constant tension between state agencies and enterprises would become inevitable.

A related problem with the attempt to keep the ownership readjustment within the bounds of orthodox discourse is that social fairness in assigning property rights becomes a salient issue. Without much scrutiny, one may detect in the proposals concerns about how to create equal shares of social wealth and universal prosperity. This consideration seems a centripetal force pushing the reform platforms toward the government for assurance of impartiality. If the state sought to live up to people's expectations to prevent the potential or inevitable side effects of the market, in particular income disparities and social instability, the government's authority over enterprises would also more likely be reinforced than weakened.

Since the reform proposals break little new ground in containing excessive government interventions in enterprise operations, they cannot be expected to effectively tackle the problem of low efficiency of state enterprises. In fact, if the "whole people ownership" in the form of "government" or "bureaucratic" ownership remains dominant at all levels of the administrative hierarchy, the decision-making process in state enterprises would likely be filled with quibbling, tension, and frustration. Given the egalitarian orientation of all these packages, the time and resources perforce required for multitudinous owners of the means of production to be represented in decisions may actually further aggravate the problem of

inefficiency. Moreover, when social assets are equally distributed, and the state authority is introduced to minimize potential income disparities, the effect of the incentive system to improve the efficiency of the work force would also become questionable.

IMPACTS OF THE PROPOSALS ON THE OWNERSHIP READJUSTMENT

The interest and flexibility displayed by the post-Mao regime in assimilating capitalist mechanisms to expedite industrialization have inspired Chinese theoreticians and practitioners to challenge China's socialist institutions. Yet the leadership's firm stand in keeping state enterprises under public ownership delimits a very narrow space for intellectual talent and liberality. The leadership's commitment to public ownership also restricts its own choices among the proposed packages for the attempted ownership readjustment in state enterprises.

At the Party's Fourteenth Congress, convened in October 1992, the Communist leadership reemphasized the predominant position of public ownership in China's socialist market economy.⁴⁴ In its widely publicized discussions on pushing state enterprises onto the market, the separation of ownership and management, sometimes conceived as the separation of the legal and economic rights to public assets, was promoted as the key to the success of enterprise reform. The congress did acknowledge the shareholding system between the state and the enterprise, but only as a complementary implement for divorcing the functions of the state as the proprietor from those of the enterprise as the manager, and for gathering idle capital. Individuals were granted permission to lease only small and heavily-indebted enterprises.

Yet given the ambiguous conceptual framework of public ownership in China's socialist market economy, the "separation" package fails to specify the legal and economic rights, obligations and liabilities attached, and who should represent owners of state assets dispersed in enterprises. This deficiency results in the central and local government continually being the trustees of the public resources and their specific functions continually scattered in various agencies. With their property rights unsettled, state enterprises remain subject to governmental planning departments for "supervisions" on investments, to financial bureaus for retention of profits, and to organizational agencies for appointing and removing managerial personnel. The anticipated new public ownership system which recognizes the state enterprise as body corporate and honors its rights and duties in regard to public assets is still out of sight.⁴⁵

The economic reforms, however, have touched off decentralization in the public sector, and state enterprises are authorized ever greater decision-making power in their production affairs. This means that ambiguities in the definition of their property rights and responsibilities does not merely perpetuate the unequal relationship between the state as the owner and enterprise management as the user, of the public assets, it also creates loopholes for managers to abuse their poorly defined rights to encroach on the interests of the state, or the whole people.

To compound the problem, the proposals for enterprise ownership and a shareholding system by employees seem to have equipped management with suggestions and arguments for maximizing its private or organization's interests, even though the packages have never been accepted by the government.

Worse still, as the state's regulatory functions and the "invisible hand" of the market are still interacting in arbitrary terms, neither is able to effectively regulate economic activities of state enterprises. Consequently, while public assets are virtually left to the mercy of individual enterprises, management is constrained by little risk or liability for abusing the resources. For example, when the manager of a cement factory in Fushun, Liaoning Province, signed a contract with a state agency, he was only asked to put down 1,500 yuan (about U.S. \$200) as the mortgage deposit. The estimated fixed assets of the firm, however, amounted to 70 million yuan.⁴⁶ Even if the deposit is in proportion to a manager's annual income and the potential penalty of losing it might exert some binding force over his/her performance, the mortgage is not likely to make up for any potential loss resulting from mismanagement.

The ambivalence in the ownership issue also helps to dispel managers' concerns about bankruptcy even if their firms are deficit-ridden. Although they have been required by contracts to be responsible for their own losses since 1987 when the urban economic reform was in full swing, there have been few cases in which the state has failed to bail out a crisis-stricken enterprise "owned by the whole people." This "paternal" protection is extended either through subsidies or arranged annexation by more lucrative state enterprises. According to the 1991 statistics, every year since 1987 at least 20% of the small and medium-size enterprises suffered from loss, and the financial subsidies from the state totaled 40 billion yuan.⁴⁷ As for the insignificant number of enterprises which were closed down, state agencies in the locale have to make concrete arrangements for the life and

replacement of every afflicted employee.⁴⁸ More often than not, managers of "bankrupt" enterprises would be transferred to other positions because they are still registered civil servants in the state bureaucracy and were assigned to these enterprises in the first place.⁴⁹

When the economic pressure exerted by the state on enterprises is elastic and negotiable, enterprises cannot be expected to faithfully attend the state's interests. A typical example is that the state suffers from the concerted efforts of management and workers in abusing their rights granted by contracts to maximize their wage incomes. A notorious instance occurred in 1988 when state enterprises registered an 8.3 percent increase in their output value, and yet the average income growth of their employees was 19.7 percent.⁵⁰ The government has since been seeking to refrain the swell of income funds from exceeding the growth of production. Its repeated mandates and injunctions in this regard, however, seem to have either fallen on deaf ears or been circumvented by wages in kind, from food and high-quality clothing to durable consumer goods.

The overexpansion of total wages adds fuel to the current unprecedented inflation, which, in turn, offsets the growth of individual earnings and drives income growth to surge even more disproportionately. In this vicious cycle, sources of state revenues are rapidly drained. In order to have more money to distribute among employees, management is found racking its brains to minimize tax quotas when signing contracts with government agencies. Even when the bargain is made in favor of enterprises, many managers still seek every opportunity to evade taxes. An official estimate reveals that state- and collectively-owned (i.e., quasi-state-

owned) enterprises account for 80% of the annually evaded taxes.⁵¹ This expedites the erosion of already shrinking public resources, which have to be stretched in order to cover enormous subsidies, substantial payments made to foreign creditors,⁵² and costs on infrastructure for further economic growth.

SUMMATION

Anxious to develop productive forces, post-Mao leaders embarked on the economic reform with little socio-political preparation. To iron out the obvious conceptual disparity between their perpetuated commitment to socialist ends and their intended adoption of capitalist means, Chinese leaders and their policy and theory assistants have argued for the separation of administration and politics. The "separation" is expected to cater the management of the economic sector to the capitalist rules of the market and anchor political institutions in socialist principles.⁵³ Defined in such a way, "separation of politics and administration" is of special importance to state enterprises as a successful implementation of the scheme would mean freeing management from the political and administrative intervention of the Party and entrust technocrats and professionals with full power to achieve the efficiency and productivity created by market economies. To stimulate their entrepreneurship and convince the public that it is politically correct to proceed from concerns of cost-effectiveness and market returns in operating state enterprises, the leadership claims that as long as China remains loyal to preordained socialist ends, there should not be restraints on the means to reach it.⁵⁴

Yet it is exactly this unequivocally stated pledge that has depreciated the administrative authority intended for enterprise management and deterred managers from following the market rules in its work. In addition to the fundamental question of whether capitalist economic mechanisms can be separated from their socio-political matrix and serve socialism, a major problem with dichotomizing ends and means, or politics and economics, is that as long as China remains committed to Marxian socialism, irregardless of the specific forms of the commitment, state enterprises cannot but continue to be the mainstay of the political order, and reforms on the shop floor must be subject to concerns of sustaining socialism. Even with post-Mao China's minimum program of socialism, i.e., the dominance of public ownership and universal prosperity, state enterprises are still the principal, if not the only, embodiment of socialism. This decisive position of state firms in upholding the socialist system not only defies the effort to depoliticize their administration but requires that attempted changes in their operation and management should comply with socialist principles and standard practices and be justifiable by Marxist doctrine. A good example in this regard is the intended ownership reform in the state industrial sector.

To assure managers' autonomy in decision making and justify their power over enterprises owned by the whole people, post-Mao leaders have, and are willing, to compromise with the established ownership system. Yet since public ownership is the last and most important ideological frontier of China's already reduced socialism, the professed political tolerance of the regime does not give the intellectual circle much space for deliberation of the issue. As a result, the ownership readjustment proposals emerged from the discussions of Chinese policy

makers and their think tanks are expressed in the Marxist discourse of socialism as a cooperative system with socialized means of production. Kept within the orthodox interpretation, these proposals have little tangible reference on how enterprises could simultaneously remain under socialist ownership and conduct business independently as private corporations in the market. Neither do the proposals provide managers with adequate justifications and guidance on how to break away from the bound of socialist practices derived from the institution of whole-people ownership and assume their expected roles as apolitical "objective" professionals engaged in "scientific" management and arranging societal assets according to the market demand and profit volume. Short of a solution to the issue of ownership, the manager responsibility system has not yet been carried out to its full terms specified in the Enterprise Law a decade after its enactment, or generated the anticipated productivity in state enterprises. The operation of state firms is, in conclusion, still both an economic and political issue in post-Mao China.

ENDNOTES

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² Peter Shran, "On the Organization of Production Under Socialism," in Arif Dirlik and Maurice Meisner, op. cit., p. 73.

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- ⁵ Joseph Y. Battat, Management in Post-Mao China: An Insider's View (Ann Arbor, Michigan: UMI Research Press, 1986), pp.32–33.
- ⁶ The Chinese leadership in the Mao era and its aftermath insists on the Marxist tenant that industrialization is an indispensable provision for building socialism. In Chinese textbooks, socialist industrialization refers to the process in which an economically backward socialist country builds its powerful modern industry and changes itself from a backward agricultural country to an advanced industrial one. For further discussion, see Cihai (Shanghai: Encyclopedia Publishing House, 1979, p. 1579).
- ⁷ Deng Xiaoping, op. cit., October 3, 1983.
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- ¹² Joseph Y. Battat, op. cit., p. 8.
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- ¹⁶ Leslie Sklair, "Capitalist Efficiency Without Capitalist Exploitation—Some Indications from Shenzhen," in Malcolm Warner (ed), Management Reforms in China (London: Frances Pinter Publishers, 1987), p. 181.

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- ¹⁹ For discussion of British or other Western European practice see Jack Rabin and James S. Bowman (eds., 1984).
- ²⁰ Gerald E. Caiden, op. cit., p. 54.
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- ²² Ibid.
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- ²⁴ Dwight Waldo (1948), op. cit., p. 202.
- ²⁵ Ibid., p. 203.
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- ²⁷ Resolution of the Central Comity of the Chinese Communist Party on A Few Historical Issues of the Party Since the Founding of the People's Republic, (Beijing: People's Publishing House, 1981), p. 19. (zhongguo gongchandang zhongyang weiyuanhui guanyu jianguo yilai dangde ruogan lishi wenti de jueyi)
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- ²⁹ In China's hierarchy of ownership, those represented by former communes in the countryside and co-ops in urban areas are classified as semi-socialist because the means of production are collectively owned and production plans, management and distribution of earnings are self-determined within the limits permitted by state policies.

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- ³¹ Huang Shaoan, "Reform in the Deep Structure of Ownership and New Practice of Enterprise Management System," Economic Research, March 1990, pp. 60–61. (lun suoyouzhi shenceng jiegou gaige yu qiye zhidu chuangxin)
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- ³⁹ Wang He, "Property Right Reform and the Reconstruction of Socialist Ownership," Inquiry into Economic Problems, April 1989, p.5. (chanquan gaige yu shehui suoyouzhi de chongjian)
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⁴² Ma Qingquan, "On the Reform of the State Ownership: Patterns and Courses," Economic Research, March 11, 1990, p. 12. (lun guojia suoyouzhi gaige de guilu he fangxiang)

⁴³ According to the interviews of a manager from a cement factory in Shanxi Province, and a local Party official from Guangxi Province, conducted in Hawai'i in the summer of 1992, the Chinese government stipulates that if an enterprise is permitted to switch from the absolute state ownership to the shareholding system, the state must hold more than 51 percent of its shares. Exceptions may be made for a limited number of very small enterprises.

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⁴⁵ Li Dejin, "Gearing Participation in Government and Politics to Economic Reforms: Sidelights on Speeches at the Second Plenary Session of the Eighth Chinese People's Political Consultative Conference," People's Daily (Overseas Edition), March 16, 1994. (mianxiang jingji gaige canzheng yizheng: zhengxie bajie erci huiyi dahui fayan ceji)

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⁴⁷ Yan Wenguang, "Barriers and Solutions in Forming a Market of Property Right for State-Owned Enterprises," Research on Economics and Management, No. 3, 1991, p. 24. (lun qiye chanquan shichang nanyi xingcheng de zhangai ji duice)

⁴⁸ According to the official figure published in the People's Daily (Overseas Edition) (August 6, 1992), by June 1992 there had been altogether 15 state-owned enterprises that claimed bankruptcy in the whole public industrial sector.

⁴⁹ In the summer of 1992, this author interviewed one manager from a cement factory in Shanxi Province and another from a winery in Shandong Province. Both were in the University of Hawai'i attending an MBA training program. They confirmed that the practice of public bidding for the position of the manager of state-owned enterprises was halted in the second round of contracting started in late 1990. Around that time, the coverage of public bidding also disappeared from the official

media. Now it is still state agencies concerned that either appoint a manager from within an enterprise or assign somebody to the post from outside. The reason for falling back to the conventional practice of personnel appointments and removals, according to the two managers, was to break the prevalent aptitude for quick profits regardless of the consequences to the environment and the long-term development of enterprises. It was generally believed that the public bidding brought to the management position many opportunists seeking for personal gains. Also, a typical contract that allowed a manager only a three-year tenure might have made his/her eagerness for quick profits more acute and destructive.

⁵⁰ Mao Tianqi, "China's Economy in the 1990s: Development and Reforms," Journal of Lanzhou University (Social Science) Vol. 19, No. 1, 1991, p. 1.

⁵¹ Su Dongbing, op. cit., pp. 10–11.

⁵² China experienced the first peak of making payment for its foreign loans in the 1990s. It is estimated that during the period of the Eighth Five-Year Plan (1991–1995) five to six percent of the state revenue, or two to three percent of the national income, has to be set aside annually for paying off foreign debts. See Mao Tianqi, op. cit., p. 3.

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CHAPTER 5

SMASHING THE "IRON RICE BOWL": CONCEPTUAL ISSUES ABOUT PERFORMANCE-BASED DISTRIBUTION AND THE LABOR MARKET

The lack of ideological clarification of the property rights of state enterprises within the public ownership system makes it very difficult to define and rationalize their rights, obligations, and liabilities. This deficiency not only challenges the legitimacy of managers' authority in planning production and allocating public assets according to market demands, but also debilitates the state in protecting through legislation and taxation the interests of society embedded in the resources at the disposal of enterprises. Yet even if the issue of ownership could be settled and state firms be empowered with decisions on all production-related matters, enterprises may not spontaneously have the faculties to exercise authority in ways aspired to by reform designers. A common belief holds that to change the state enterprise from an "inefficient," "semi-political," and "semi-administrative" organization into a profitable and accountable commodity producer, the attempt to readjust whole-people ownership must be accompanied by reform of the "traditional" managerial mechanisms which are geared to a centrally-planned economy.¹

Primary on the agenda of Chinese leaders and their economic advisors for replacing "traditional" administration of state firms with "scientific management" is for managers to acquire technical expertise in managing human resources. The explanation given is simple: to maximize profits, managers' authority and rights to handle public assets have to be supplemented by a motivated work force. The first task set for "scientific management" is thus to "smash the iron rice bowl" and

reintroduce competitive elements into the hiring and income distribution processes. To accomplish this goal, many politicians have ceased to applaud the security provided by egalitarian incomes and life-time employment as the advantage of socialism. Instead, they have authorized enterprise management to "optimize" labor organization through merit-based selection of employees and to compensate each worker according to his/her performance. Chinese leaders and their assistants have even encouraged state firms to streamline their surplus hands and argued for the practicability of a labor market in the public sector.

Yet the resolve to "smash the iron rice bowl" has not yet been successful because managing labor is not simply a matter of technical know-how. It is, more importantly, an issue of political economy and is influenced by cultural values and assumptions. Since post-Mao China remains steadfast regarding its socialist order, a draconian market-focused change in labor management such as "smashing the iron rice bowl" faces many challenges. One major constraint lies in the attempt to find answers to the questions of how to measure performance and define labor in Marxist discussions of distribution and surplus value. As may be inferred from the experience of the intended ownership readjustment, this attempt has proven to be another futile effort to reconcile Marxian socialism and the capitalist market. In the Marxist orthodoxy, it has identified neither a market-regulated measurement for "to each according to his work," nor justifications for a labor market. Although the reform may have chipped the "iron bowl," it has surely not been able to remove the "bowl" from those working in the state industrial sector.

ISSUES IN DECENTRALIZING WAGE CONTROL IN ENTERPRISES AND MOTIVATING WORKERS THROUGH INCOME DISPARITY

"MISTAKES" IN THE DISTRIBUTION POLICY OF THE MAO ERA

Post-Mao leaders and economists claim that the simple correlation between performance and payment was ignored in China before the economic reform. A main reason for this "error" is said to have been the lopsided emphasis on some interpretations of the Marxian distribution principle. These critics think that the conventional interpretation of the Marxist tenet bequeathed from the Mao era does not explicitly deny the existence of income disparities. It, in fact, even admits that before a socialist society reaches the stage at which extremely abundant products prevail, the distinctions between town and country, industry and agriculture, and physical and mental labor are eliminated, and labor is the first want of life, consumer goods can only be distributed according to "more pay for more work, less pay for less work, and he who does not work, neither shall he eat."² The post-Mao critics contend, however, that distribution in the Mao era was discussed solely as an issue of production relations, and hence negation of exploitation and affirmation of equality were accentuated. For example, in seeking to minimize payment differences, the Mao regime maintained that if production relations of a socialist society could be characterized by laborers' voluntary alliance and cooperation established on the basis of their joint ownership of societal assets, their equal status and identical interest should also be reflected in the dispersion of material or nonmaterial benefits.³ It even defined the equal rights embodied in the principle "to

each according to his work" as bourgeois because this honored differences in individual capabilities and other material conditions.⁴

The post-Mao leadership and its entourage of theoreticians insist that the radical discussion of the Mao era pushed egalitarianism to the extreme. With the assistance of successive mass movements such as the "Great Leap Forward" and the "Cultural Revolution," launched partly to restrict the privileges of some social groups, the principle "to each according to his/her work" eventually became one of individuals all eating out of the "iron rice bowl" regardless of his/her work. To correct the alleged conceptual deviation of the Mao era and cultivate competition, the current regime encourages attempts to reinterpret the distribution principle, amend the conventional distribution practice, and establish an incentive system in state enterprises. It aspires that a performance-based distribution mechanism will emerge from the attempts, which will allow management to assess employees' work and provide income accordingly. Once individuals' material remunerations are in proportion to their performances, state firms are believed to be able to use the "carrot and stick" to redouble the possibility of satisfactory production results.

JUSTIFICATIONS FOR SWITCHING TO MARKET-FOCUSED DISTRIBUTION PRACTICES

The rationale of post-Mao China for changing the established ways of remuneration in the public sector is that the distribution practice envisioned by Marx is meant for a later phase of Chinese socialism. They think that, although existing mainly in conception, a sketchy description of a society in such a phase is still possible: commodity and monetary exchange will disappear and so will the

distinction between social labor and that of individuals. In other words, when society jointly owns the means of production and material affluence is accessible to all, laborers would no longer need to exchange products to subsist. Nor would distinctions in the effectiveness of their labor input in a given unit of time necessitate acknowledgment. These differences, whether resulting from disparate endowments, or acquired skills, or uneven production conditions, would not translate into different quantities or qualities of production outcome distributed among laborers. Individuals' labor input should be directly incorporated in the total labor of society. The "labor" would only be evaluated by hours, that is, certain number of hours exchanges for a certain amount of products. Moreover, the distribution process would not be mediated by currency but by certificates that could not be circulated.⁵

China does not exemplify the scenario at its present stage of socialism. It thus follows, argues the leadership, that while the essence of the Marxist principle applies to the country, the means for implementation should be flexible to reflect its uniqueness and suit the requirements of the political institution in the present phase.⁶ China's distribution mechanisms should therefore endorse the principle of universal prosperity, on the one hand, but conform to socio-economic reality on the other. What the reality presents is the coexistence of different ownership systems, a low level of socialized production resulting from backward productive forces, and only relative adequacy of societal wealth. These qualities of premature socialism suggest that labor remains a means of life (rather than its primary want) and the populace is still dominated by materialistic pursuits.⁷

Based on this analysis, Chinese leaders and their policy assistants conclude that a centrally-fixed wage system is inappropriate for state enterprises because it handicaps remunerations to flexibly respond to the distinctive effectiveness of individuals' work. When people still work in exchange for the means of life, earnings and benefits are not likely to stimulate an enterprising spirit or efficiency among laborers if these fail to "reward diligence and punish indolence." Moreover, when the compensation distributor is the state, which bases its measurement on both economic and socio-political considerations, compensation receivers are apt to always feel that they are paid less than what they deserve and to believe that others' earnings are higher. This mentality cultivates discontent among workers either toward each other or toward the state government. The potential for social grievances and instability, in turn, presses the government to further compromise efficiency and productivity for a more egalitarian distribution policy.⁸ To solve the problem, theoreticians contend, the practice of centralized distribution should be discontinued, and management should be empowered to decide questions on employees' compensation and bonuses. This shift should be expected to stimulate the emulation drive among state enterprises and employees because their performances are directly related to their income levels.

Yet to acknowledge in theory that differences in work should be accorded with different earnings is one question; to decide what measurement to use and what factors to be included in the measurement is another. Many politicians and economists claim that if the present level of maturity of China's socialism justifies the existence of commodity production and money as the current medium for

exchange, a different measurement of work should be developed from that for the advanced stage of socialism. To their disadvantage, however, Marx, in his discussion of individuals' work time being the only judgment of distribution, spares every comment on different accomplishment in the same period of time due to divergent endowments.⁹ This "gap" in the orthodoxy makes the search for an alternative measure extremely difficult.

CONTROVERSY OVER PERFORMANCE MEASUREMENT

To break the epidemic inertia that state enterprises demonstrate as a result of the "secured wage" system, the assistance of the market is suggested. Chinese politicians and economists who esteem the market as omnipotent argue that under the rule of "survival of the fittest," the law of value will ensure that a worker's income corresponds to his/her work. In other words, if socially necessary work hours should be introduced into the distribution process as a yardstick, the motto "more pay for more work, less pay for less work, and he who does not work neither should he eat" would then become true. This assertion, however, does not appeal to those who are skeptical about the myth of the "invisible hand." Challenging the legitimacy of the attempt to judge workers' performances by the ill-reputed "socially necessary hours," they put forward an alternative measurement, i.e., medium work hours of the entire state sector, a given trade, and a given enterprise. Yet, as the following will indicate, both proposals concentrate on the conceptual correctness in Marxist terms but give little coverage to their blue prints or operational procedures.

Socially Necessary Work Hours

Commodity production is designated for exchange. Yet the immense variety of products differs in labor input and use values. To establish a common ground for comparison, "socially necessary work hours" are brought into play. Abstracted from diversified concrete labor input in producing a given commodity, socially necessary work hours represent what is required for the production of a given commodity under the prevalent normal conditions of production and at the socially average level of skills and intensity of labor. As they are supposedly obtainable from all commodities against which the magnitude of their values is appraised, "average work hours" make distinct commodities comparable and exchangeable at equal values.¹⁰

Chinese politicians and scholars who campaign for the concept of socially necessary work hours insist that if China's underdeveloped socialist economy is defined as market-oriented, it is then only logical and wise for state enterprises to observe the law of value in evaluating and compensating employees' performances.¹¹ They argue that if socially standard work hours embodied in a commodity are used as the "objective" reference for individuals' work in distribution, everyone on the shop floor will have an equal opportunity for fair competition and reward, because under the law of value all producers are on equal footing when they enter the market with their products. They are judged by a unified measurement, i.e., socially average cost, and credited accordingly. If their products are produced more efficiently than what the average cost represents, the market recognizes them with extra profits. On the other hand, the market has little

mercy on producers who lose ground in reducing their average labor hour input in their products. Moreover, producers differ in their talents and abilities to assimilate new technology and respond to demand fluctuations. The variation is bound to translate into a different economic outcome. The law of value appreciates and encourages the difference through unequal profit procurement and compensation endorsement.

These Chinese are, however, quick to note that their applauding of socially necessary work hours as a fair incentive device for stimulating competitive and accountable performances in state enterprises does not mean to allow individual producers to monopolize all profits. Nor would honoring the law of value change the socialist orientation of China's economy or ownership of state enterprises because most of their gains will still be characterized as public property and channeled to the state through taxation for citizens of other sectors to consume. Absorbing much of the potential financial disparities, this last link should see to it that income disparities resulting from differences between individual labor input and the socially necessary work hours will stimulate competition for better work results but not lead to polarization.¹² It is obvious that the implementation of such a proposal necessitates elaborations on questions such as how socially average work hours should be formulated in a socialist, or perhaps semi-market economy, what constitutes a fair percentage of profits to retain and distribute among employees, what the safe margins are for income disparities, etc. Yet the proposal has left out the detail.

Medium Work Hours of the Entire State Sector, Individual Industries, and the Enterprise

Politicians and scholars who take issue with the suggestion of using socially necessary work hours as the standard for distribution contend that its platform is feasible neither in concept nor in operation. They argue that for "socially standard work" to determine the amount of compensation to individual laborers, these laborers must have an oppositional position in the market. This "opposition" would then turn their labor into socially necessary labor. In China, however, commodity producers interacting in the market are enterprises and what is exchanged at equal values is their respective summed labor. Laborers in state firms are neither directly involved in business transactions, nor do they enter into any commodity exchange relationship with one other inside the enterprise. Although they are personally engaged in limited links in the production process, they do not exchange their unfinished products. Therefore, even if socially necessary work hours may fulfill the function of a ruler with regard to the added-up work of an enterprise, more conceptual and practical elaborations are necessary before they can be justified to measure an individual laborer's work.¹³

Although they testify against the relevance of socially necessary work hours to distribution in the state industrial sector, the critics do not mean to suggest that the Marxian distribution principle and China's increasingly market-oriented economy are diametrically opposite to each other. Instead, they allege that distribution and exchange are two interrelated aspects of a continuum and effectuate in two different domains, namely, distribution in the microcosm of the enterprise and exchange in the macrocosm of society. The critics expound that public ownership

implies that the relationship based on exchange at equal value has ceased to exist between workers and enterprises. An individual worker's labor no longer needs to be converted to socially necessary labor for assessment of its value. It should rather be directly compensated according to its quantum. However, since China's economy still embodies the market element, an individual's labor cannot be rewarded directly with consumer goods as Marx predicts for a higher stage of socialism. The immediate object of distribution is still a money wage, which is then exchanged for commodities in the market. Although in the process of exchange, fluctuations of demand and supply may inflate or deflate wage incomes representing labor input, distribution according to work is honored as long as the amount of wages is determined by the amount of labor of an individual at the intra-enterprise level.¹⁴

After appeasing the tension between the market and the socialist distribution principle by assigning them to two separate realms, these politicians and scholars proceed to affirm that determinants in value assessment and in value distribution are inherently incomparable. While determinants in value assessment pertain to general rules underlying all market economies, those in value distribution are qualified by specific socio-economic systems of a given society and reflect the relationship of its laborers in production. If the socialist orientation of China's market economy signifies an equal relationship among workers, distribution should acknowledge only the mental and physical input of an individual, rather than also include the socially necessary work that encompasses input complemented by other factors, material or

otherwise. Yet distribution defined as such does not mean to obliterate differences in income but to transform their origin.¹⁵

These Chinese who oppose using the "socially average work hours" as a code thus propose that a more feasible judgment of an individual's work should be developed from three median figures. These include the average work hours of the entire public sector, of a trade, and of an enterprise. Calculated according to the general productivity and production quotas "scientifically determined" at the three levels, figures of enterprises are expected to provide the immediate basis for the principle "to each according to his/her work," and the other two will macro-monitor it with references to the mean incomes of all state firms and of a relevant trade. This triplex judgment is alleged to also make possible exchanges at relatively equal quanta of labor among trades and enterprises and thus to best suit the socialist nature of the public industrial sector. Finally, by applying the measurement, differences in subjective efforts devoted to work would be adequately acknowledged, while income disparities would not run wild and threaten social instability.¹⁶

Obviously, the triplex measurement involves an enormous amount of work. It thus requires a feasible work plan for its implementation. Yet just as the proposal for "socially necessary work hours," this alternative suggestion has also failed to elaborate on details, which has left it no more than an intellectual exercise.

UNATTENDED ISSUES FRUSTRATING THE IMPLEMENTATION OF THE PROPOSALS

In addition to the problem of lacking tangible programs for their agendas, the two proposals also reveal certain conceptual deficiencies. It may be right to suggest that "to each according to his work" implies the logic of different capabilities resulting in dissimilar volumes of labor and hence variant compensation. It may also be right to claim that at the primary stage of China's socialism, individuals' labor is not equal to social labor partly because jobs vary significantly in their demand on human energy and proficiency and partly because personal choices for occupations in the dominant public sector are still subordinate to state plans. Under this quasi-socialist economy, an ideal distribution mechanism for state enterprises should be able to acknowledge differences in work effected by disparate personal effort and competency, and diminish impacts of differences on incomes resulting from unevenly distributed opportunities by China's imperfect socialist system or its immature market economy. Yet by aiming at only one target, neither the proposal of socially necessary work hours nor that of the average work hours of all laborers involved seems to promise a legitimate alternative to the "iron rice bowl."

To revive the incentive function of the principle "to each according to his/her work," the proposal promoting socially necessary work hours as the assessment code for performance emphasizes laborers' subjective effort and proficiency as the most essential factors in profit procurement and rewards. Yet it overlooks the impact of another consequential element on work, i.e., access to capital, funds, facilities and technology. Disequilibrium in this regard, however, is the reality among state enterprises imposed by the institution of plans. It is a fact that the list

of state-allocated goods and materials has been rapidly shortened for the establishment of a capital market¹⁷ and the Party's Fourteenth Congress, convened in October, 1992, also reinsured the effort. Yet as long as China's market economy is modified by the adjective "socialist"—interpreted as being coordinated by the state—unequal accesses to funds and resources supposedly co-owned by all laborers will likely remain. It is thus questionable whether there exists such a "fair judge" as socially necessary labor to rule distribution in the state sector. Even the introduction of the suggested differential resource and capital taxation may not necessarily settle the issue of invisible labor transferred from an unequal distribution of the means of production. The policy-oriented "solution" may ultimately prove another man-made impediment to the commended market mechanism, on which socially necessary labor hours as the fair medium for exchanges among commodities of different natures are founded in the first place.¹⁸

Another complication with utilizing socially necessary labor hours as the standard for distribution lies in the fact that its fairness is, on a large scale, contingent on the integrity of prices. Exchange at equal value is effectuated through the agency of price. Unless market competition is absolute and a relative balance between supply and demand is sustained, prices may not reflect actual values of commodities. Presently, there does not seem to exist an economic system in the international community which is capable of removing all artificial factors affecting prices. In this regard, China finds itself in an even less encouraging situation since its commodity economy is characterized by an embryonic market and chronic scarcity of goods. Its prices, monitored by plans and

other socio-political concerns, can hardly be refrained from misrepresenting socially necessary labor embodied in products.

Even if unrestricted absolute market competition could excel in China, contingent factors may still break forth to cause disagreement between commodities prices with their values.¹⁹ For example, profit seeking, an inherent aspect of a commodity economy, not only animates efficiency but also typifies a tendency of swarming to and from production of a given commodity. A potential effect of such oscillation is that uncontrollable fluctuations of production and consumption are likely to foment deviations of prices and values of commodities. When monetary indicators of values of commodities misrepresent their substances in the exchange process, the truthfulness of exchange at equal values is open to question.²⁰ Although the law of value reportedly assures that distorted socially necessary labor is ultimately self-balanced, it is dubious whether the average figure, which seems significant only in its abstract form, can be justified for use as the measurement for the specific labor of an individual.

Seeking to reconcile the seemingly uncompromisable conflict between socialism and the market, the formula of average work hours of the sector, trade, and enterprise also lacks a detailed agenda and fails to provide definite answers to a few crucial questions. This deficiency overshadows its realistic significance. For example, the proposal does not include any substantial elaboration of factors to be taken into account when the three different types of medium work hours are computed. Nor is there any delineation of the appropriate capacity of the impact that the "averages" of the sector and the trade should be permitted to exert on the

enterprise. Yet a settlement of such issues is important for achieving the goal of the proposal: distributing prosperity relatively evenly among the working populace while simultaneously securing adequate leeway for the manager to stimulate the sense of insecurity through income disparities which would lead to labor competition and thus better productivity.

Conceptual ambiguities about income distribution at the primary stage of socialism affect the development of a new mechanism at the operational level which would attend both the economic effect and its socio-political implications. The absence of an alternative sustains the status quo. The State Council did issue an ordinance in late June, 1992, and has reiterated it since then, urging enterprises to transform their managerial mechanism, especially income distribution that was reportedly divorced from production effect.²¹ Yet except for ruling that the increase of the total wages of an enterprise should not exceed that of profits, and that the growth of per capita income should stay behind that of productivity, it offered managers few tips on how to make use of income disparities. Still operating in the shadow of Marx's vague but confining framework of distribution, most enterprise managers seem reluctant to claim their rights to judge workers' performances and compensate them accordingly. While the gaps in income among enterprises and between production departments and auxiliary bodies inside enterprises may be wider than ever, disparities at the personal level within a division are meager and do not necessarily reflect differences in work. Income disparities at both the inter- and intra-enterprise levels continue to be closely monitored by government agencies and enterprise management itself.²²

ISSUES IN "OPTIMIZING" LABOR ORGANIZATION AND THE ESTABLISHING OF A LABOR MARKET

THE PROBLEM OF SURPLUS LABOR IN STATE ENTERPRISES

Even if enterprise management could take advantage of its designated authority to stimulate workers through income disparities, improved efficiency and productivity may not follow spontaneously. To maximize profit volumes, managers have to overcome another readily perceptible hindrance—the commonly acknowledged problem of superfluous personnel deposited in state enterprises. Due to the population size and the socialist belief that everybody is entitled to the right to work and that "he who does not work, neither shall he eat," virtually all state enterprises are estimated to be overstaffed by 20 to 25 percent.²³ The real situation in the public industrial sector may present a more dreadful picture than that of superfluous labor eroding its efficiency and profits. Since managers cannot legitimately let the surplus employees idle about with full pay and demoralize other workers, they have to either keep them occupied with unnecessary work or divide tasks so that everybody has something to do. This results in every worker operating under his/her capacity and yet each of them must still be furnished with resources and facilities. Thus, on the one hand, disengaged means of production as well as technology and skills lie idle. On the other hand, the added but likely unnecessary functions and processes for occupying the excessive labor are allotted resources and energy for inefficient operation. An inevitable consequence is that the more economic activity that occurs, the greater the waste and the less effective supply, characterized by concurrent shortages and overstocking of products.²⁴

Many economists in China and the West have been appealing the government to delegate enterprise management the power and rights to lay off or relocate surplus employees. The central leadership has also made known its sympathy for the argument. Testifying to its resolution to tackle the endemic deficit problem in the state sector, the government has legalized the authority of managers in this capacity by enacting the Enterprise Law, a follow-up ordinance on managerial reform, and through the decision of the Ministry of Labor to cease to assign state enterprises any employment quotas (beginning from 1993).²⁵ Yet as with other issues of production relations, the leadership sidesteps the challenge of important conceptual questions, and consequently all its effort gives managers little implementation guidance on recruitment or dismissal. Left alone to ascertain details of their newly granted power, most managers have naturally chosen not to exercise the authority to make the size of the work force fluctuate with the demand of the market.

In addition to the problem of rationalizing the layoff of "masters" of state enterprises at the conceptual level, the feasibility of the sensitive transformation also seems questionable in a realistic sense. Although the placement system in cities is greatly decentralized and enterprises may directly recruit from labor reserves,²⁶ public and private job centers are only in their rudimentary stage and have limited functions. Lacking an effective mechanism to channel surplus labor to under-tapped assets, many state enterprises continue to alleviate their occasional manpower shortage by recruiting contract workers from the countryside or from a limited source of urban idlers. Yet since preparing temporary employees for

production is time- and resource-consuming, enterprises find a reserve of skilled workers essential when demand for their products soars, or when extra capital is procured. They would rather "hoard" their underemployed labor than risk an opportunity of making profits by "wasting" time on in-service training or by filling vacancies created by layoffs with unqualified hands.

In the search for a solution to the problem, a consensus seems to focus on the development of a labor market. Many politicians and economists think that if the market, instead of the government, could take care of the allocation of labor, enterprises may be relieved of the task to help the state fulfill its obligation of "full employment." Also, if labor could circulate freely through the market, and if this means that enterprises may compete for qualified recruits, state firms would have few reservations about readjusting their payrolls according to the demand of their products, their productive capacity, and the supply of resources.

THE LABOR MARKET IS RECOMMENDED AS A SOLUTION FOR SURPLUS LABOR IN STATE ENTERPRISES

Chinese pro-market politicians and economists hold that the effort to "smash the iron rice bowl" has a dual agenda: to transform the distribution practice as well as the employment system in the public industrial sector.²⁷ They insist that in order to effectively motivate the work force and improve productivity of state enterprises, both secured incomes and life-time job security should be revoked. When employment and income are correlated with market demand, profits and input of personal effort, workers would have incentives to concern themselves with the issue of efficiency and productivity of their corporations.

To back up this obvious deviation from the conventional perception that socialism eliminates unemployment, the pro-market circle first resorts to Paul A. Samuelson's theory of a progressive decrease of profit. According to Samuelson, if an ever-increasing variable input (for example labor) is uninterruptedly added to a constant input (such as land), at some point, the increase of output would languish.

To circumvent the progressive decrease of profits, the variable factor of relative abundance should be transferable among different constant factors.²⁸ The implication of the theory is self-evident: The Chinese government should cease assigning enterprises mandatory placement quotas, and managers should be able to lay off their superfluous employees. They would then be relocated to other establishments where the labor/capital ratio or underdeveloped productive capacity allows the assimilation of more labor.

Another rationale from the pro-market circle for streamlining surplus workers in state enterprises is that in the process of economic development disequilibrium and corresponding readjustment of production structures are commonplace. While new jobs may be created in the course of restructuring, a segment of the labor force may possibly become disassociated with production. There usually exists a transitional period between being laid off and being rehired, because the disemployed may not be immediately absorbed by other production processes. If "full employment under socialism" is "rigidly" understood as not allowing even a temporary drop-out due to necessary rearrangement of the labor force, the perception is not only "unrealistic" but "destructive" to the development of production as well.²⁹

From this rationale, the politicians and economists proceed to expound about who should reallocate the laborers "briefly segregated from the working contingent." They contend that China should discontinue the status quo in which state and local governments are in full charge of placement of urban residents. They maintain that if the centralized placement system is only partly responsible for the chronic inefficiency and low productivity of state enterprises, its negative impact on the economy during the reform would be more detrimental. For in China's socialist market economy—defined as the state regulating the market but the market directing the enterprise—centralized allocation of human resources would retard earnings of enterprises obtained in part through prompt maneuvering of their manpower to suit the demand of the market. The prevalence of the problem may, in turn, dislocate the operation of the entire economy and hold up the process of industrialization.³⁰

In comparison to centralized placement, the labor market is deemed much more conducive to the performance of enterprises. Its virtues are reported to include lifting imposed barriers to optimum disposition of the labor force and facilitating a two-way selection between enterprises and employees. The latter point should have a direct bearing on production, for to remain competitive and satisfy their respective needs, both parties will have to be more actively engaged in self-improvement. An ideal scenario may thus emerge in which the enterprise will endeavor to provide reasonable benefits and a favorable work environment to attract qualified employees. Meanwhile, laborers will seek to maintain their

competitiveness by constantly refueling their competence with updated technical know-how.³¹

JUSTIFICATIONS FOR COMMERCIALIZING THE ABILITY TO WORK

The Chinese Communists have long held that the entire warehouse of Marx's economic theory are based on his thesis of surplus value which is a prerequisite to the existence of the labor market. Their epitome of Marx's substantial and complex literature for the common Chinese reads that the so-called voluntary deal at equal values between wage and labor is simply a myth. What is really transacted between capital owners and laborers is not labor but the ability to labor. What is paid as a wage is equal only to the value of subsistence required for sustaining and reproducing this ability. On the other hand, having bought this ability from the market, the buyer has acquired its use value, which will produce values in great excess of its own value represented by wages. This excessive part constitutes the notorious surplus value that the capitalist pockets for free. To maximize the surplus, capital proprietors have to constantly renovate technology and equipment and to augment labor intensity. While this may help forward productive forces, it also leads to the stratification of society into rich and poor.³²

Chinese Communists claim that Marx attributes the existence of a labor market to two essential conditions. One is that laborers are free from the enforced feudal personal bondage and hence are in control of their own ability to work. The other condition is that the free laborers are in possession of absolutely no means of production and that their only access to resources for production is through the institution of wage labor.³³ In light with this observation, does it stand to reason to

ask the owners of the means of production to sell their ability to work for what they already own?

Although few Chinese workers can be described as being well versed in the Marxist literature, many of them are familiar with the concept of "surplus labor" through numerous "study campaigns" and Marxist-Leninist primers. Thus advocates of a labor market in the state industrial sector must answer the above question before they can proceed with the ordeal. As with other conceptual issues arising from the reform, the pro-labor-market circle approaches the challenge from the argument of the "primary stage of socialism." Some contend that at the present lower stage of China's socialism, laborers' ability to work is still privately owned because the humble productive forces at this historical period oblige individuals to self-support the ability and self-finance its refinement. Moreover, they have to bear the expenses for reproducing the ability reserved in their offsprings. To a great extent, the level of their own technical literacy, the quality of their families' life, and the accessibility of their children to education, still depend on what or how much their ability can be traded for. Meanwhile, their payments vary according to their work results which reflect the differences in their ability. This suggests that the socialist principle of distribution according to work also acknowledges the private nature of the ability.³⁴

To better comply with the socialist orientation of China's economy, other market advocates have put forward a less radical account of the ability to work. They admit that under the public ownership system, the means of production are indeed owned by laborers, and the ability to work is a societal asset as well. Only

when the means are associated with the ability, will they be translated to material wealth. Yet the ability to work is innate in the laborer and is still a means of his/her life at the primary stage of socialism. Thus, while the ability is owned by the whole society, the individual laborer possesses it and has the immediate right to its usage and to the decision of where and how it is used. The result of the interdependence of the means of production and the ability to work is that society requires that the right to employ the ability be transferable, and the laborer needs avenues to trade it for access to the means. Judged by the mixed nature of the ability to work, it may thus be regarded as a simulated commodity. It takes the appearance of any other commodity and should be able to circulate in the market. Yet conditioned by the public ownership system and monitored by state agencies, the "selling and buying" will not change the status of the laborer or alienate him/her from the means of production.³⁵

Whether the ability to work is a real commodity, or a *fait accompli*, the message of these arguments is clear: a labor market should be established where private owners of the ability and those in need of it may strike bargains to their respective satisfaction. As for the premise that the labor market presupposes private ownership of the means of production and that the laborer owns nothing else except for his/her ability to work, market advocates expound that the public ownership has changed the social status of laborers only in principle. To effectuate his/her status as co-owner of the means of production, an individual laborer will have to become an active member of a public production establishment. Outside of it, he/she has virtually neither the right to own, nor the right to manage, the means

of production. For obtaining the right, the individual must trade the use value of his/her ability. This attests to the existence of the prerequisite for the ability to be commercialized even under socialism.³⁶

While arguing for the legitimacy of a labor market in China, its advocates also remind their audiences not to overlook what fundamentally distinguishes China's version of the market from that prevalent in capitalist economies. They claim that although under socialism the use value of the ability to work also produces more values than are represented by wages received, the "surplus value" does not necessarily threaten the institution of exploitation. Yet their explanation on this argument is vague; it states that unlike in the capitalist world where proprietors devour the surplus value, in China, part of it would be retained within the enterprise where the laborer is a beneficiary, and part of it would be handed over to the state for the enjoyment of the entire society of which the laborer is also a member.³⁷

This comparison, however, does not sound very convincing because anybody who has some knowledge of a proprietary society may rebut it with facts to prove that taxes paid there are also portions of "surplus value" turned to state and local governments for public services. Even if this argument could be taken for truth, there are still conceptual loopholes in the afore-mentioned rationales for a labor-market, which holds back the formation of such a market in the state industrial sector.

INADEQUATE THEORETICAL DEFENSE OF THE LABOR MARKET

Despite the efforts of the pro-market circle, the expected labor market has not yet loomed on the horizon of the state industrial sector.³⁸ One important

reason for this belated advent, again, is that its advocates do not indicate any desire to break away from Marxist persuasion on the issue. Their effort to search for arguments in the Marxist theoretical warehouse implies that they only intend to stretch conventional interpretations of socialist production relations so as to make room for profit-driven practices of market economies. Yet by resorting to Marx's theories of ownership, commodity exchange, and surplus labor, their arguments that under socialism the ability to work is still a commodity are filled with missing links which render them vulnerable to criticism. The almost predestined failure is attributed to the fact that Marxist theories seek to prove that the condition for the capitalist mode of production is surplus value produced by wage labor³⁹ and to negate the validity of a labor market in a socialist economic system whose production relations are built on public ownership.

One major problem with subscribing to a public ownership system is that by so doing the pro-labor-market arguments actually discredit their objective to streamline the surplus labor in state enterprises through employment reform. For if a laborer is still a legal co-owner of the means and results of production and an actual one after he/she strikes a bargain with an enterprise on the labor market, as the market advocates claim, the "exchange" does not merely facilitate the firm with a key production agent and the laborer with subsistent means. The business transaction between work ability and wages also signifies the transfer of an abstract owner of societal assets to a concrete one equipped with the right to both utilize the means of production within the enterprise and participate in decision making and management. This means that even if the enterprise could freely purchase the

ability to work in the market according to its need and at its chosen price, it may not be able to freely get rid of it once the transaction is done. It is simply not justifiable for the enterprise to dismiss or lay off its lawful and effective owners on the excuse that they are superfluous.

Meanwhile, a counterpoint may be introduced to bear against the claim that the labor market will help consolidate the laborer's social status guaranteed by public ownership. If the common rule governing commodity exchanges applies to the labor market, the allegedly equal business relationship reflected by exchange at equal values between the enterprise and the laborer may not automatically transcend the labor market and be carried over to the production process. In theory, once the transaction is concluded, the exchange process terminates, and so should the equal relationship between the two parties. The buyer takes possession of the use value of the commodity, or the ability to work, after he/she/it pays for its value. The seller becomes a factor of production at the disposal of the buyer. There does not seem to exist much of an opportunity for the laborer to be better associated with the means of production and solidify his/her status of a co-owner. It takes much imagination to see how the commercialization of the ability to work could be a more effective way to secure the laborer's dominant position in production and management.

Another problem with the pro-market arguments is their ambivalent definition of monetary wage. In discussing the issue, market advocates equate the compensation that the state enterprise gives the laborer with the "price," or wage, that a buyer pays for the ability to work on a labor market. This implies that the measurements used in settling the amount of payment in both cases are identical.

Yet with a little scrutiny one may discern that distribution according to work and rating a laborer's ability by the law of value are not only established on diametrically different political philosophies but operated with distinct calculation scales. The law of value specifies that the price for the ability to work is decided by the socially standard labor requested for producing what is necessary for its subsistence and reproduction. Distribution according to work, on the other hand, goes by the time/amount of labor as described by the founders of the socialist ideology. In other words, after deductions are made for societal needs and expansion of production and welfare of the laborers in a given enterprise, the rest of the production yield is distributed among the employees thereof in accordance with the quantity and quality of their work. Even if the ability to work were to become a commodity in China one day, the two distinct codes for distribution may still not be identical because the socialist system, so long as it crowns the market, would likely inflate the value of the ability and its monetary form to exceed the necessities for its sustenance and reproduction offered by the law of value. In the final analysis, as long as they accept the dominance of public ownership in China's economic system, market advocates will have to observe the principle of distribution according to work, which is both the outcome and realization of a public ownership system. This political stand not only contradicts the law of value that underlies the labor market but also queries the credibility of defining the ability to work as a commodity.

Discouraged by the theoretical ambiguities about the sensitive issue of laying off workers, or apprehensions over its consequences, political and physical,⁴⁰ managers in state enterprises and their superiors in the state administration have

been reluctant to seriously consider the labor market as a remedy of the overstaffing problem that is believed a main reason for the poor performances of state corporations. Although enterprise management is in general warned not to expect rescues from the state and be held responsible for the balance-sheets, it does not seem pressed at all to discharge the estimated 17 million surplus laborers stockpiled in state firms. As a result, the excessive work force continues to prevent enterprises from achieving the efficiency and productivity of their counterparts in free market economies. Worse still, many state enterprises still operate in the red and are accumulating deeper deficits. The central government admits that the recorded high speed of the overall industrial growth is mainly sustained by expanding investment in capital construction rather than improved labor productivity.⁴¹

SUMMATION

To stimulate the profit motive of employees in the state industrial sector and enable enterprise management to follow market rules in operation, post-Mao leaders are willing to make institutional adjustments in the politically sensitive and socially consequential arenas of distribution and employment. They have modified the Maoist interpretation of "to each according to his work" and shifted the emphasis from the egalitarian sharing of rewards to income disparity according to work. They have also responded affirmatively to the appeal for removing lifetime employment as a necessary step to solve the stated problems of overstaffing and low efficiency of enterprises. To legitimize managers' authority to adjust their payrolls according to market demands and create physical conditions for the anticipated fluctuation of the

work force, Chinese leaders and their think tanks have even claimed that a labor market in the state industrial sector is both conceivable and practical.

Yet in spite of their resolve to convert state firms into independent accounting corporations responsible for their own profits and losses, current leaders have carried on the Maoist legacy which insists that economic development is a means to facilitate the progress and perfection of socialism.⁴² The political conservatism of the post-Mao regime has limited the research on market approaches to "smashing the iron rice bowl" within the Marxist orthodoxy. Marxism, however, does not measure the market mechanism in a positive light. It rather discusses the market in relation to the capitalist mode of production. According to its assessment, buying and selling partakes of parasitism because

no value is produced in the process of circulation, that is, no new wealth is created for society, so that the surplus value (profit) it appropriates is actually merely a portion of the surplus value already yielded by productive (industrial) capital.⁴³

Founders of Marxism also presume that when capitalism vanishes, so would the market, and the economy would operate through a planned organization of the publicly-owned means of production. In this context, labor would cease to be a commodity transacted and compensated in accordance to market returns. Instead,

from the moment society enters into the possession of the means of production and uses them in direct association for production, the labor of each individual becomes social labor...the quantities of labor put into products would then be expressed in their natural, absolute measure, time....⁴⁴

Needless to say, Marxist negative perception of the market and candid suggestion that the socialist approach to organizing the work force differs from that of capitalism problematize the post-Mao effort to reintroduce the market element

into the human resource management of state firms. Unable to explain in Marxist terms and concerned about the potential for polarization and mass unemployment, the Chinese government has not seriously pressured enterprises to "smash the iron rice bowl." Neither do managers have the incentive to take the initiative in implementing "to each according to his work judged by market returns" or laying off the "surplus" labor when the socialist trademark on China's "market economy" has contained the function of the "invisible hand" in labor management of the state industrial sector.

ENDNOTES

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CHAPTER 6

AN UNFAVORABLE ENVIRONMENTAL CONTEXT: PROBLEMS IN THE IMPLEMENTATION OF THE MANAGER RESPONSIBILITY SYSTEM

Chinese enterprise reforms highlight a gradual transition from government control to market control. Accompanying this shift is the expansion of managers' autonomy in planning production and allocating after-tax profits. The opportunity to sell on the open market and to distribute bonuses to employees is anticipated to create enough incentives for enterprises to learn to cope with economic forces, make profits, and see to the appreciation of state assets entrusted in their hands.¹ To help managers adjust to their new responsibilities, management training programs have mushroomed throughout China in which Chinese technocrats are exposed to managerial concepts and mechanisms from market economies. The effort to introduce market competition and Western managerial know-how into state firms is, however, frustrated by confusion arising from post-Mao leaders' decision to retain China's socialist order, the government's concerns about subsequent social instability which have the potential to bankrupt the Communist regime, and managers' hesitance to probe the poorly charted "socialist market." These problems have created pressure on the government and management to constantly compromise with reform procedures. As a result, enterprise reforms have since 1984 neither accorded adequate scope to the execution of the manager responsibility system nor shifted the focus of public attention from individual job and welfare security to labor efficiency. Unable to blend socialism and the market, or socialist organizational principles and "scientific management," the reform effort

has, moreover, produced many abuses and grievances on the shop floor which furnish government agencies with further excuses to meddle in enterprise operation.

A RALLYING CRY FOR "SCIENTIFIC MANAGEMENT"

HUMAN RESOURCE MANAGEMENT HIGHLIGHTED IN ENTERPRISE REFORMS

As testament to its resolution to restructure state corporations, the Chinese leadership has been shrinking the list of resources and products which are under mandatory plans of the central government. It has also taken the initiative to depoliticize enterprises by gradually making obsolete the dominant position of the Party committee on the shop floor. Moreover, managers of the older generation, appointed mainly for their political aptitude, are gradually being replaced by younger technocrats who graduated from technical schools or colleges.² To help managers claim their authority, the leadership also made definite in late 1991 that economic restructuring within the enterprise should focus on management and labor reforms, especially the personnel and compensation systems.³

The human-centered nature of the reforms implies that engineering competence alone is not equal to the task of administration. To operate the social and economic complexes like state enterprises that are entrusted with immense material, technical, and human resources, managers are believed to need training in "modern" management practices.⁴ With professional expertise of market-oriented and human-centered management gaining prominence, loud voices are heard calling for the import of managerial expertise from abroad, their justification being that management of human resources is a virgin frontier in China.

In 1980, the post-Mao leadership endorsed the argument by setting up China's first pilot program—the National Center for Industrial Science and Technology Management—for cooperative teaching with management instructors from leading American business schools.⁵ The transfer of Western management concepts and practice was, however, limited for a long time after the open-door policy was implemented. China seemed more attracted to technical hardware than techniques of human resource management. This lack of interest in management "software" is attributed by many scholars to China's interpretation of Marxian materialist dialectics that stresses production forces. Managerial knowledge is regarded as a product of human materialist actions, and is hence subordinate.⁶ Moreover, in Marxist persuasion, management is an issue of production relations, reflecting social relations evolved in human production activities. Therefore, while many Chinese leaders professed that foreign input in management was necessary in making the imported equipment and technology work, they were apt to shy away from this highly sensitive question at the beginning of economic reform in urban areas.

MANAGEMENT TRAINING PROGRAMS AND "ADVANCED" WESTERN CONCEPTS AND PRACTICES

In 1987, the move to strengthen the manager responsibility system in state enterprises through separating the Party and government incited a change in this attitude. It seems obvious that the separation scheme and the thesis of primary-stage socialism allowed the leadership convenient leeway to bypass the political entanglements of the issue. China has since been systematically drawing on market economies for management know-how. Even the Tiananmen Square Incident and

the aftermath did not seem to frustrate its willingness to entertain "advanced" management techniques.⁷ Chinese literature on management defines "advanced" as consciously following "objective economic laws" rather than rules of thumb. It argues that just as market economies could not have developed to the present advanced stage without "scientific" managerial concepts and methods, the growth of the Chinese socialist market economy would also prove inconceivable if China failed to apply achievements of the West in this regard and failed to combat inefficient pre-capitalist ways of labor and management.⁸ When speaking to the Central Party School in June, 1992, Jiang Zemin, the Secretary General of the Communist Party, endorsed this argument by openly calling for the Chinese Communists to be more courageous in learning from capitalist country's achievements applicable to China, including their "scientific" administrative and managerial know-how.⁹ The People's Daily, the mouthpiece of the government, carried a follow-up editorial contending that Marxism was an open system and had the courage to assimilate applicable concepts and practices from other systems. It urged the Chinese to "discard old ideas," which were defined as dogmatic interpretations of Marxian discussions on socialism. Otherwise, foreboded the editorial, they would not even be able to identify useful experiences from advanced market economies, let alone integrate them.¹⁰

With ideological barriers "cleared," management training programs have mushroomed in China, and the enrollment has skyrocketed. In 1983, for example, there were about 59,000 university students nationwide majoring in disciplines related to economics and management. By 1990, however, the enrollment

sextupled, with an estimated student body of 380,000. Curricula of the discipline have also been elaborated. Students pursuing their education in management can now study for the bachelor's, master's and doctoral degrees. (The academic ranking system was introduced into Chinese higher education system in 1980.) Moreover, many universities also offer special graduate courses for on-the-job enterprise managers.¹¹ There are even more short-term training programs for managers who do not seek or are not qualified for advanced degrees in management. Official statistics indicate that by 1991 more than 180,000 enterprise managers had participated in a nationally monitored training program and passed the final examinations. In addition, 137,000 people on the managerial staff had studied in vocational training programs to update their professional expertise.¹²

While trainees of these programs still have to study Marxist political economy and scientific socialism, most of their courses are management-related, including market economics, stocks and investment, accounting, international trade and banking, and foreign languages.¹³ Supplementing these applied courses, many curricula also include seminars on western management theories and methodologies. These courses are often directly taught by instructors from the West. Moreover, thousands of university students and enterprise managerial personnel have been sent to western countries to study or to be trained in "advanced" management practices.¹⁴

Yet despite their sustained appeal to managers and the Chinese community at large, these programs have exerted a very limited impact on enterprise management. One major problem with them is that their teaching materials are

compiled primarily by direct translations of western models. Thus apart from buzzwords like "scientific management," "systems theory," "decision-making theory," "management by objectives," etc., their textbooks provide few empirical examples or data on how these conceptual generalizations of Western practices can be tailored to China's enterprise management. The unbridged discrepancies between the reality of Chinese state firms characterized by their socialist bearings and the abstract "science" of management evolved under free enterprise have reduced many training programs to merely a convenient and speedy medium for obtaining diplomas required for administrative appointments and upward mobility.¹⁵

APPEAL OF TAYLORISM

The attempt to engage managers in applying contemporary Western management concepts and mechanisms has highlighted the attractiveness of another antiquated managerial approach, "scientific management." In post-Mao China's heated discussions about "advanced" Western management techniques, this term resounds in both research and operational circles. While many students of enterprise management contest that their "scientific management" is different from that of Taylor's because his was not human-centered,¹⁶ a scrutiny of the two discloses their resemblance in denomination as well as substance. The comparability is even more discernable when Taylor's works are approached from his proponents' standpoints. It is no wonder that some Chinese frankly observe that management reform should begin with Taylorism.¹⁷

The manager responsibility system brings to the focus human resource management for the obvious reason that if the manager is authorized to arrange only

state-owned capital but not the work force according to his/her judgment of the market, profit maximization will continue to roam within sight but beyond reach. At the heart of management and labor reforms is the "rational" allocation of the labor force through empowering the manager to make decisions on personnel affairs, particularly on appointments, dismissals, promotions, and remuneration. The approach adopted for the purpose is the subcontracting system that involves all employees. Under this system, all posts in the enterprise are to be filled by employees selected based on their qualifications. The enterprise and individual appointees would be bound by contracts which define their respective rights, obligations, and liabilities. Both parties are, in turn, eligible for propositions of renewing or terminating a contract. Since a contract becomes effective only when management and an employee affix their signatures to it, the subcontracting system within the enterprise is believed to involve a dual selection between the enterprise and its employees. This is expected to stimulate both for good performances.¹⁸

The proposed change of fixed and secured positions in the enterprise is followed by a transformation of the compensation system. Regulating only alterations of the total wages in the macrocosm, the state will cease to issue mandates on wage adjustments in the enterprise. Management is to decide manners of compensation in correspondence to economic situations. The state government, however, encourages the enterprise to gradually install a wage structure that adds gravity to positions and skills and marginalizes premiums. This measure will allegedly supplement the effort of switching life-time staff and workers to contract employees whose basic wages, monetary rewards, and welfare benefits vary according to skills required for their posts, the intensity of labor, and risks

involved. Those who are sifted off by the contracting system, however, would have to live on their basic wages until they are esteemed qualified for a post through retraining or self-perfection.¹⁹ Since contracts are theoretically subject to time limits, employees who survive the selection would also be pressured to keep improving their technical competence and labor effectiveness so as to remain competitive in enterprises.

The immediate goal of this reform effort is to streamline surplus labor in the public industrial sector. To accomplish it, Chinese policy makers and scholars of management urge practitioners in enterprises to identify tasks based on "scientific" analyses of the market and production capacity and decide the number of employees required for the tasks accordingly.²⁰ To be "fair" and "responsible" to employees, government agencies are urged to assist management to define requirements for each position and to formulate criteria for assessing each individual's performances for rewards and penalties.²¹

This eagerness to increase the organizational efficiency and productivity by economic incentives and behavior control has revived the appeal of Frederick Taylor's managerial techniques. Post-Mao leaders avow that changes in labor management would not involve production relations but only procedures of reward, promotion, training, and appraisal. This position makes scientific management readily applicable to enterprise reforms because Taylor also professed that the essence of his brain child was to engage the owner, the manager, and the worker in a mental rather than a social revolution.²² Moreover, not only do Taylor's advocates believe that his management techniques may help poor countries solve

the problem of underproduction,²³ but Lenin also echoed the compliment and endorsed in 1918 the broad adoption of the "scientific achievement" within the Soviet Union.²⁴

Yet for concepts of "scientific management" to be decorously introduced into enterprises, those who urge state firms to make up for the "missed lesson" need first to reverse China's traditional denunciation of Taylorism as a device for capitalists to "wring the last drop of sweat and blood out of the working class."²⁵ Here, they may find convenient certain arguments of Taylor's supporters in the West. These people claim, for example, that criticisms of Taylor as a typical authoritarian who treated workers as appendages of their machines and "scientific management" as a synonym for economic motivation distort the essence of his works.²⁶ For them, the well-known fact that Taylor authored the classical organization theory, in whose advertised hierarchical pyramids management had all the control over the laborer, is only a myth.²⁷ They do not think that "scientific management" itself embodies anything which promises the destruction of the working class. Instead, as a philosophy of management, it reportedly takes as its final goal "to have every individual use his or her highest powers to the best advantage" in order "to reach the highest point in productivity...."²⁸ Taylor's advocates argue that his statement that "workers were both naturally indolent and subject to the pressure of social effort norms" and could not volunteer a fair day's work on their own good will did not mean that employers should standardize every operation movement and regulate its time span by fractions of a second in order to maximize returns.²⁹ The time and motion study was, rather, an attempt to

"eliminate physical strain and bodily damage from doing the work the wrong way,"³⁰ and "a strategy to reach the goal of industrial cooperation, the assumption being that employers will be less relentless in pursuing low wages if profits are greater."³¹

According to the definition of Taylor's supporters, "scientific management" should suit China's distribution reform because it supposedly accentuates "adequate," "fair," and "accurate" rewards to employees "who adapt and excel," and rejects those "who do not."³² This, however, is said not to suggest the desertion of the unqualified because

the constant aim of scientific management [is] to organize itself so as to be able to help, in the broadest fashion, those who are temporarily or permanently below the average, to be as largely productive as such farsighted assistance can make them.³³

Since managers often "facilitate" the learning process and "wait on the workmen and help them in all kinds of ways," "scientific management" would also "turn" them into "servants" of employees³⁴ and "assist" a two-way communication between managers and employees which should give the latter a sense of mission.³⁵ In other words, Taylorism should enable Chinese state firms to sustain participatory management.

By emphasizing "scientific management" as a tactic for better shop production and attributing its problems to mis-applications, these positive interpretations seem to have covered most concerns in China's enterprise reforms: cost-effectiveness, productivity, management-labor relations, and prosperity for all. The specific techniques of increasing productivity through correct approaches to tasks and fair monetary rewards for timely completion,³⁶ of maximizing prosperity

through high wages for the worker and low labor cost for the owner,³⁷ and of promoting industrial harmony through identifying skills and limitations of workers and helping them to advance,³⁸ should provide China with a convenient reference in carrying out enterprise reforms.

In promoting "scientific management," Chinese advocates, however, have overlooked some important issues. For one thing, its "targets" in Chinese firms are fundamentally different from those in Taylor's factories because they are not only employees but also the constitutional owners of enterprises. To "regulate" their behaviors with "scientific" procedures requires more justifications than the above-mentioned arguments of Taylor's supporters. Also, since post-Mao China insists on sustaining its socialist order, radical changes in the managerial practices have to accommodate public perceptions and expectations of the political system so as to stay legitimate and secure general acceptance.³⁹ Since the platform of the on-going management and labor reforms does not have answers to these issues, "scientific management" remains an appeal rather than a fact.

THE COMBINATION OF "SOCIALISM PLUS CAPITALIST INCENTIVES" PERPETUATES GOVERNMENT INTERVENTION IN ENTERPRISES

BALANCING SOCIAL STABILITY AND LABOR EFFICIENCY

Enterprise reforms attach discernable importance to "advanced" techniques of cost accounting, cost-benefit analysis, quality control, forecasting, and accommodating the market element in planning.⁴⁰ Yet reform architects also think that the effectiveness of these techniques in maximizing profits depends on a motivated work force. Built on this assumption, enterprise reforms have

concentrated on installing a permanence-based system of employment and compensation and stimulating labor competition. As an alternative to the traditional "unidirectional" system where managerial staff can only be promoted, workers remain employed, and their wages can only be increased, the performance-based system is expected to allow both promotion and demotion, employment and lay-off, and pay raise and pay cut, determined by both the individual's and the enterprise's performance in the market.⁴¹ The ideal scenario under the system is described as individuals compete for employment, the market adjusts labor demand and supply, the enterprise selects and keeps the most qualified, and society operates the welfare service.⁴²

This scenario, however, is not likely to come about instantly. Thus, a more immediate target is set for the management reform, i.e., to improve productive efficiency by the program of "optimizing labor through regrouping employees." The specific content of the program is to let enterprise management identify tasks according to market demands and to decide how to attend them. First-line supervisors then "select employees into their work groups on a mutually voluntary basis." Finally, chosen workers are to be rewarded commensurate with their "excelling" qualifications and timely completion of tasks.⁴³ To encourage management to be profit-conscious and utilize "scientific" planning and organizational strategies, managers will be acknowledged with monetary and honorary awards when tasks are fulfilled. On the other hand, if an enterprise suffers a loss, not only employees will be subjected to pay cuts, but the manager will be penalized financially and by disciplinary sanctions.⁴⁴ Defined as such, the

"regrouping" mechanism echoes what is suggested by Taylor's scientific management.⁴⁵ Yet if scientific management helped many mills and workshops increase organizational productivity, similar techniques of economic incentives and behavior disciplines embodied in the program for "regrouping" do not seem as effective.

The underlying reason for its ineffectiveness is the anxiety displayed by both its architects and practitioners over the potential socio-political consequences of the scheme. Because it suggests stimulating competition by laying off surplus labor,⁴⁶ the "regrouping" program is resisted by workers and staff as a threat to their jobs and welfare security. Uncertain about the scope of probable public discontent and its expressions, and concerned about technical problems inherent in the mechanism, both state agencies and enterprise management seem to talk more about the labor reform than take actions of substantive significance. Rhetorically, few Chinese politicians, or scholars, or managers have reservations about state enterprises perfecting their organization of labor for maximum profits. Both individual firms and society as a whole should benefit from more efficient operations and higher productivity. If enterprises can steadily increase returns, their after-tax profits will simultaneously grow, permitting them to invest more in production and the well-being of their employees. The general public will also enjoy affluent commodities. Yet, in reality, ideal models and programs for economic efficiency often have to yield to other concerns.

To its disadvantage, the "regrouping" scheme has to begin with lay-offs and differential incomes before its promises become evident. Concerns about how the public will respond to it are therefore very much realistic. Moreover, with the most

conservative official estimation of the surplus already amounting to more than ten percent of the one hundred million employees in state firms,⁴⁷ the impact of the program on society, if not handled prudently, can be devastating. The sense of insecurity may easily become epidemic since the ten plus percent unlucky ones may be family members, relatives, friends, or acquaintances, of the other eighty something percent. Failure to reassure the public may change insecurity into grievances which, in turn, may breed social disturbances. The lesson of the Tiananmen Square incident in the summer of 1989 is still too fresh in politicians' minds for them to risk another riot for any hypothetical economic returns, however promising they may be.⁴⁸

As the ruler of the country, the Chinese government naturally seeks to maintain social stability at all times. With the shock waves of the political crisis in East Europe pounding at the Chinese Communist regime, sustaining social stability is, in fact, often both the starting-point and the end-result of its policies and actions. Thus when pressured by diverse and elevating demands of different interest groups, the government tries hard to ensure that the total social supply is relatively fairly distributed among various demands. To maintain social and political stability, sometimes the leadership even compromises efficiency and productivity.⁴⁹ For example, to minimize social consequences of the "regrouping" program, the government has endorsed six conservative methods among many others proposed by individual enterprises to dredge their surplus labor. These choices all satisfy its political expectations as they are very unlikely to engender a revolutionary change in

the employment and remuneration systems. Yet the prospects of their boosting efficiency and productivity of state enterprises do not look bright.

The six suggested approaches include: (1) let excessive employees take over construction work in enterprises or open production lines for new products; (2) bid for more project contracts or search for opportunities to export manpower; (3) reserve extra hands for rotating labor training, (the accessibility to periodical training is said to be essential, especially for those denied of contracts because of their inadequate performances or poor qualifications); (4) move up retirement or arrange longer leaves for women and the sick; (5) "create" vacancies by dismissing temporary or casual hires; or (6) assist those willing to give up their "iron rice bowl" and become private entrepreneurs.⁵⁰

These approaches obviously stress that enterprises will "digest" their own surplus employees rather than let the "invisible hand" of the market take over. That these approaches do not comply with the market-driven reform effort indicates that the post-Mao government would not risk social and political consequences for better efficiency and productivity. It also suggests that until the current leadership formulates a conceptual framework and operational procedures for "reconciling" socialism and the capitalist market, which politicians may agree upon and which can be sold to the public, China will continue to honor its socialist obligations to industrial workers. Moreover, it will continue to protect its state industrial sector from the raid of the dynamic global economy and production that has cost manufacturing jobs in all mature economies.⁵¹

Laden with anxieties over social reactions to reforms, decision makers seem unwilling to count on only making suggestions to enterprises. They continue to

closely monitor management by attaching addenda to their reform-provoking policies. For example, while urging managers to prioritize efficiency and optimum allocation of capital and human resources in defining labor size and arrangement,⁵² they "advise" small and medium-size enterprises, which comprise 99.13 percent of the state industrial sector,⁵³ not to arrange their work-force solely on cost accounting. They urge managers to curb their desire and potential for greater profits and to minimize labor displacement in order to avoid rampant layoffs and the probable social aftermath.⁵⁴ On the one hand, they push state firms to "smash the iron rice bowl" and match their work-force with production capacity and market demands. On the other hand, they press enterprises to "self-absorb" the potentially retrenched.⁵⁵ Policy makers also keep reminding management to observe workers' superior status on the shop floor and its obligations to them. Managers are stamped as being irresponsible if they attempt to lay off employees without first finding relocations or making detailed arrangement for them.⁵⁶

If by marginalizing state mandatory plans policy makers seek to motivate enterprises to compete for better market returns and be accountable for their operations, their paradoxical regulations on enterprise reforms run counter to this attempt. When enterprises are simultaneously pushed by the government's aspirations for capitalist economic benefits and pulled by its desire to sustain socialist standards so as not to disrupt the social and political status quo, they are not likely to accomplish much in restructuring management of material and human resources. Changes that are generated in this capacity tend to be superficial, enough only for putting on a reform front.⁵⁷ To avoid complications and liabilities,

most managers continue with their more accustomed and politically safe approaches to management, which were conceived and developed before the reform era and are hence not geared to the market.

***POPULATION SIZE AND AN INADEQUATE SOCIAL WELFARE SYSTEM
IMPAIR MANAGEMENT AND LABOR REFORMS***

Upon assuming office, the Chinese Communist leadership chose to practice universal employment in pursuing economic development. This approach partly reflected its confidence in a mass movement, an important expression of the mass line that had contributed to the triumph of its struggle for power. In part, this tallied with the then economic reality characterized by exuberant human resources but inadequate capital and technology. The anticipated positive impacts of universal employment on society and the Communist authority also motivated decision makers to proceed with the policy. That this last factor was soon the major concern of the leadership became obvious as the policy prevailed even after it had proved unrewarding in pure economic terms.⁵⁸

Due to China's population size and economic conditions, its high employment policy was inevitably accompanied by low income and irregular pay raises. This also resulted in low and extremely stable prices for necessities of life. (The cost of living for urban residents remained practically unchanged in the thirty years of the Communist rule before the economic restructuring.) Assisted by overt and covert state subsidies, welfare and fringe benefits were also universally provided through enterprises and other public organizations, which secured other essentials such as health care, housing, training, and offsprings' education and employment. As a reliable source of income and the essentials of life, the universal employment

system assured the general urban populace a stable life and hence helped minimize public discontent and commotion in the pro-reform era.⁵⁹

Many economists and other reform advocates believe that social stability as such was admittedly maintained at a high economic cost. According to them, excessive state subsidies to enterprises drained already scant resources for development. Life-time employment and surplus labor, two inevitable results of the everybody-has-a-job policy, discouraged competition on the shop floor and sapped workers' enterprising spirit and creativity. Extremely low labor turnover also made enterprise management vulnerable to pressures from workers for higher pay but lower production quotas.⁶⁰ Moreover, under the patronage of the state, enterprises did not have to satisfy the ever growing appetite of their work force through increasing profits and improving the art of management. Many of them fulfilled their welfare obligations through bargaining with superior state agencies for higher allowances and lower production quotas. Since the size of the work force was an important variable in ranking a state firm in the administrative hierarchy and hence in specifying its access to funds and resources, many enterprises sought to swell their already overstaffed work force with new recruits in order to upgrade their welfare premium.⁶¹

Committed to its ambitious modernization programs, the post-Mao leadership does not want to leave this situation unchecked, as did its predecessors. To realize its economic goals, it needs to face squarely the problem of low efficiency and productivity of the public industrial sector and foster a cost-effectiveness-conscious work force. Otherwise, inadequate performances of state enterprises will adversely

affect the growth of government revenues and the development of other industries because they are the major sources of technology, machinery, energy, and resources. Yet the leadership is also very anxious about potential social discontent triggered by massive layoffs and differential incomes in factories. In fact, since the economic restructuring in general and the labor reform in particular are top-down undertakings, public support and social stability are extremely important for the leadership to accomplish its initiatives.

This dilemma has led many Chinese scholars, economists, and enterprise managers to believe that a possible way to accomplish the expectations of the labor reform and to minimize unintended consequences is to establish and perfect a social welfare system, at least in urban areas. Their argument is that once the government and enterprises can be reassured that the aftermath of the labor reform will be taken good care of, they will become more motivated and daring to center labor management around market discipline. They also assert that a single system which performs all social welfare responsibilities such as the well-being of the unemployed, the sick, the injured, and the retired, will offer better services to the needy than enterprises which have many other tasks to divert their attention. State firms, on the other hand, should assist the establishment and sustenance of such a system.

Details for starting off a socially controlled welfare system are also suggested. First, local governments should institute well-founded rules and procedures for collecting money and services. Next, unitary agencies should be set up to manage and allocate the funds and to extend their accessibility to ever more people. Finally, since helping the unemployed to be rehired is an important mission

of the welfare system, these agencies should also see to the evolution and maturity of a labor market for a more rational and optimum distribution of the labor force.⁶²

Yet an effective welfare system does not take shape overnight. Since many political and ideological issues concerning the "socialist market" are yet to be settled, it may take China even longer to establish and perfect the system. A distant water cannot quench immediate thirst, as an old Chinese saying goes. At present, China's primitive social welfare system is simply unable to provide for millions of superfluous employees in state enterprises, if they were to be displaced.

This may be attributed to two problems: limited resources and uninstitutionalized management. Although enterprises are required to hand over money equal to about one percent of their annual total wages to the state unemployment insurance fund for the potentially displaced,⁶³ the availability of its service proves problematic. The constraint comes from the public ownership system. Specifically, institutions which are supposed to take charge of the disposal of the funds command only a small proportion of the resources. A large portion of the "public" money is turned over to state banks, which often divert funds to other, more urgent purposes.⁶⁴ Along with authority over money, welfare institutions also surrender their functions and responsibilities. As a result, the welfare and insurance system cannot be counted on to cushion potential social and political fallout from the advocated management and labor reforms in state enterprises.

To compound the difficulties in work force retrenchment, the reforms are also tempered by the overwhelming pressure to accommodate a large number of first-time job seekers. Official statistics indicate that the high birth rate in the

1970's has resulted in eleven million new applicants for employment every year during the period of the Eighth-Five Year Plan (1991–1995) and beyond.⁶⁵ The highest urban unemployment rate that China can bear under the current living conditions, however, is reported to be 3.5 percent.⁶⁶ This means that state enterprises, the major job suppliers in urban areas, have to help minimize unemployment through constant recruitment. Moreover, the most optimistic estimation of new jobs generated every year amounts to only seven million,⁶⁷ suggesting that the number of dependents per wage earner may increase. This situation will pressure enterprises to keep offering their overstaffed work force pay raises and monetary or material subsidies whether or not their profits grow.⁶⁸ All this, undoubtedly, counteracts the effort to install "scientific" procedures of task identification, staffing according to market demands, and compensation based on task fulfillment.

MISCONDUCT BY MANAGEMENT COMPROMISES ITS AUTONOMY

An important target of enterprise reform is to have the government to give up its role as the deep-pocket patron and sales agent of state firms and relinquish its intervention in their pursuit of profits. Enterprises, in turn, will compete for their own survival and growth on the market and will be held liable for losses. The autonomous decision-making power promised to enterprise management since 1984 is, however, not yet truly honored. The main obstacle lies in the fact that although mandatory plans have been switched to contracts, the bond of the intact state ownership system sustains the subordinate status of enterprises in their relation to governmental agencies and confines interactions between the two within the same

administrative hierarchy. This situation has encouraged governmental agencies, the acting (on behalf of the whole people) but immediate "owners" of state firms, to continue making their will and intentions represented in decisions and operations of enterprises. Within the agencies, bureaucrats have also displayed an eagerness to perpetuate the status quo. An obvious explanation for their not translating the reform intent into practice is that decentralization involves readjustment and redistribution of power and rights. Thus many of them would rather compromise the targeted reforms than risk being themselves dislocated from administrative responsibility.⁶⁹

Yet state agents' reluctance to give up control is not the only reason for the delayed downward transfer of decision-making power. Poor performances of enterprise management also hold the government back from carrying out its decentralization promises. This is especially the case with management and labor reforms since many enterprises have misrepresented the undertaking.

It is true that some misconduct is inevitable because of the unfavorable macro economic environment. For example, to adapt to the reality that a sound and dynamic labor market or welfare system does not exist, some enterprises make their employees take turns being "unemployed" with full pay in order to avoid management-labor friction over "regrouping". Others choose to establish or subsidize new production lines for the "rejected," although the inadequate qualifications of the "rejected" often prove the action unprofitable.⁷⁰ Some enterprises are more creative and have adopted a "one firm two systems" strategy. In these enterprises, employment by contract and piece-rate wage are applicable only to workers recruited after July, 1986, when the ordinance on extending the

contract system to employment was enacted. Workers employed before the date, however, continue to enjoy life-time employment and secured fringe benefits. One fatal defect with the dual-labor management system is that it keeps the privilege of permanent employees intact and hence fails to exert pressure on the bulk of the labor force. As a result, many enterprises have to staff their already superfluous work force with more contract workers to do dirty, dangerous, and physically demanding jobs that permanent employees will not perform. Meanwhile, this unequal treatment has greatly demoralized contract workers. Many of them are not concerned about profit growth and are constantly on the move, seeking the best possible offers. Since industrial production is increasingly high-tech-oriented, it takes time for new recruits to be trained and to work in coordination with others already on production lines. Quick turnovers of contract workers cannot but impair productivity and add to the cost of production.⁷¹

If these misrepresentations of reforms are attributed to unfavorable conditions and confusions besetting the undertaking, favoritism, discrimination against dissidents, and other abusive activities identified in the course of "regrouping" are surely intentional distortions of the reforms. Given the fact that the check-and-balance faculty of the Party committee and the workers' congress on the shop floor has been greatly depreciated, management is often found to have no scruples in abusing its authority in labor reforms, however limited it may be. In some enterprises, for example, it "optimizes" the labor arrangement through nepotism and has reduced public-owned corporations to "mom-and-pop" or "father-and-sons" enterprises. In these locales, management defies the "regrouping" principle of equal competition for placement and appointment by merit. Its criteria

for assignments or dislocation are tailored to personal tastes and relationships. To build its own power and influence, some management has enticed followers with good jobs, planted trusted henchmen in key positions, and dislocated those who have the courage to voice disagreement. As management consists of the manager, the Party secretary, the union head, and their respective assistants, these maneuvers often uncoil fierce power struggles among them. Caught in their scrambles for personal spheres of influence, ordinary employees who do not take sides have to act with great caution. An innocent "wrong" move may incur displacement from their positions without any boss standing out to intercede for them.⁷²

Apart from these extreme cases of power abuse in personnel affairs, management is more often found disrespectful of the fact that state enterprises still operate within the socialist framework characterized by its social welfare commitment. Since their tenures in office covered by contracts are finite, managers are anxious to parade personal achievements for extension and promotion. For them, the most readily discernable merit is the growth of profits. Quite a few managers thus exploit "regrouping" procedures to eliminate those whom they deem as worthless or barriers to their ambition for maximum profits. Among the first to bear the brunt are the old, the sick, and the disabled, even though they often need care and financial assistance the most, and the enterprise may be their only rescue given the primitive and ineffective social welfare system. Management is found not only discriminating against these employees in compensation and benefits but also taking all opportunities to "send them home." Afterwards, it often neglects its

obligations to make arrangements for these employees but leaves them alone to worry and in despair over their basic means of life.⁷³

In their search for quick "achievements," some managers also rank women as unfavorable factors, second to only the old, the sick, and the disabled. For them, female employees are high-cost but low-rewarding because of their lawful rights to fully-paid pregnancy, maternity and nursing leaves, equal payment with men, and exemptions from certain strenuous jobs especially during menstruation and pregnancy. Hence, enterprise management is eager to "regroup" them off regular pay rolls for quick profits. Similar conduct is also identified during recruiting when female applicants are rejected on the excuse that their physique cannot stand the intensity of work in industrial enterprises.⁷⁴

To defend themselves against criticisms that women are made victims of their profit-only "reforms," many in enterprise management echo their counterparts in the theoretical circle by naming these discriminating practices endeavors to "help women gain a more thorough emancipation." They argue that due to the primitive domestic conveniences and social services women in China are burdened with heavy household chores. Under this circumstance, "forcing" them to continue their competition with men for equal employment and pay means to "perpetuate the de facto inequality" between the sexes as it requires women to struggle at both work and home fronts. On the other hand, shifting the status of female employees from regular to seasonal hire or even laying them off will not only "liberate" women from extra work loads but also enable them to concentrate on taking care of their families. This will also "free" their husbands, fathers or brothers from being concerned about families and homes and hence enable them to do a better job at

work. "Vacancies" thus created will moreover help the state "alleviate" the pressure of employment.⁷⁵

By employing this high-sounding rhetoric, enterprise management has subtly but potently portrayed women, the old, the sick, and the disabled as the "cause" of low productive efficiency and their lay-off as "natural" and "inevitable." If we draw on Murray Edelman's insightful analysis on language and politics, we may see that such categorizations and explanations are intended to evoke perceptions that the problems facing state enterprises have arisen from these individuals labeled as "surplus" rather than from China's political and economic policies and institutions, which created the "surplus" in the first place. The problematic classifications of these individuals as obstacles to better organizational performances also impose on them a demeaning conception of themselves. Yet management discusses the discriminative treatment of women and other "disabled" as a "therapeutic" measure for a "rosy" future. This not only puts pressure on these individuals to accept the treatment and administrative rationalizations but also helps justify the sacrifices that management demands of them. The ideological jargon, or "ritualistic rationalizations" in Edelman's terms, is thus utilized to distract attention from the not publicized impoverishing effect of the "sacrifices" on the individuals and hence immobilize their qualms and opposition.⁷⁶

Managers' resort to the polished rhetoric, however, does not suffice to bridge the gap between their misconduct in enterprise reforms and socialist principles of employment, welfare, women, and management-labor relations to which the Chinese populace is accustomed. This discrepancy has bred hostile responses from the affected to the reforms and the government, which launched them, and

fomented confusions among the general public about the validity of socialism. Although the leadership aspires to transform state enterprises into corporations ruled by the market, it has no intention of upsetting the basic livelihood of workers. Neither does it want its constituents to gain the impression that China has resigned from its commitment to socialism as the framework of its economic reforms. The success of its reform initiative and, ultimately, the legitimacy of its authority count on both the growth of productivity and the public's confidence in socialism and the blessings that socialism promises. It is thus only natural for the government to hold off the progress of decentralization, especially in matters of human resource management. Yet what the leadership does not seem to have realized, or want to admit, is that the unsatisfactory performances of many managers in executing labor reforms have largely resulted from its own ambivalent discussion and policies on the integration of socialism and the market. This ambiguity, to invoke Edelman again, enables managers to read into the reforms interpretations that suit their purposes and make it difficult for workers who are less strategically located in the reform to oppose their unfair decisions.⁷⁷ To redress the misconduct of management, the leadership has to first settle conceptual issues respecting the formula of Marxian socialism plus the capitalist market that it has shelved for too long.

MIXED REFORM SIGNALS AFFECT THE MANAGER RESPONSIBILITY SYSTEM

INCONSISTENT GOVERNMENT POLICIES ON THE LEADERSHIP ISSUE

Since the 1984 enterprise reform, managers' power and responsibility have been specified through a stream of reform measures: enterprises retaining after-tax

profits, the manager responsibility system, the contracting system, reform of the income distribution system, a pilot leasing and share-holding system, and the labor reform through regrouping. Yet managers complain that in reality conceptual controversies and ambiguities over key reform issues have resulted in paradoxical policies and instructions from the government which constrain their operation. Still reflected in their daily work is confusion over who is the leading center on the shop floor. Managers feel that they are simultaneously swept by the huge tide of a burgeoning market economy and pulled back by the gravity of the status quo.⁷⁸

For example, while endorsing managers as the sole legal representatives of enterprises, the central authorities continue to send messages through the organizational channel of the Party, reinforcing the political control of its branches on the shop floor.⁷⁹ Since the over-investment and money- and pleasure-seeking frenzies have seized most state firms and are eroding their profits and the national revenue, as well as aggravating inflation and the resource scarcity, the leadership once again calls on Party committees in enterprises to engage themselves more actively in arresting the unintended consequences of the manager responsibility system. Managers, meanwhile, are urged to reinvigorate their sense of responsibility and obligation to the Party's development ambitions, and observe its orders and regulations.⁸⁰

Confusion over the economic command of management and the political leadership of the Party committee are acutely reflected in the daily business of the enterprise. Administrative departments in government agencies seek to underscore the central position of their immediate subordinates, management. Conversely,

Party divisions in the same government bodies insist on managers answering to Party committees for their decisions on production. While the Enterprise Law explicitly refers personnel affairs to managers, ordinances transmitted through the Party's network correspond with the principle that "the Party controls assignment of public officials," including administrative staff. As a compromise, both the manager and the Party committee can now nominate candidates for administrative positions. The personnel department in the enterprise then checks on their qualifications. Finally, the Party committee decides on the person of choice, and the manager makes the announcement. This "sharing of authority" also applies to supervising the staff after they are appointed: the Party committee assesses their performances, and the manager decides on their remuneration.⁸¹ Moreover, although management and labor reforms focus on empowering managers to streamline the work force based on market demands and cost accounting, their entitlement does not embrace the control over staff members of the Party and other mass organizations in the enterprise, even if their administrative structures prove duplicate or overstaffed. Decisions on their organizational setup are still in the exclusive charge of the Party authorities in government agencies to which the enterprise is subordinate.⁸²

The implementation of the manager responsibility system is also complicated by the management-worker relationship. Absolute authority over the labor force was conferred upon managers by the Enterprise Law and the Regulations on its enforcement were issued by the State Council in July, 1992. Managers are urged to utilize their power, especially in enforcing labor discipline on the shop floor and in compensating or penalizing workers according to their performances. These same documents, however, also remind managers to watch their conduct in the workers'

state of China. Their attention is called to the fact that they are only "servants" of the public and their power over the "masters of the enterprise and the nation" is granted and defined by the "masters" themselves.⁸³ Workers' rights to the means of production and hence to overseeing decisions of management are justified by the whole-people ownership system characteristic of China's socialist economy.⁸⁴

Yet these decrees fail to expound how worker control and management authority should interact on the same terrain. The demarcation between where the manager's capacity of a "servant" ends and his/her role of a "commander" begins remains vague. This makes managers vulnerable to potential criticism that their attempts to streamline the work force and tie incomes with performance are "illegitimate" because these measures will "deprive" some "masters" their "lawful rights" to work and benefits. Given the situation, one should not be surprised to see managers offer "discounts" on their designated authority and responsibility to avoid landing in political complications.⁸⁵

Even the seemingly established discourse of the market continues to breed confusion that limits managers' enthusiasm for the responsibility system. It has been conceded that under state ownership managers hardly feel the urge to elevate the competitiveness of their products because no matter how poorly their products fare on the market, the state is always there to rescue them from dire straits. What is less noted, however, is the negative impact of the ambivalent definition of the monitoring role of the market vis-a-vis the regulating function of the government in the economic activities of state enterprises.

In rhetoric, the manager is encouraged to fulfill state contracts through scientific management—defined as correct analyses of and prompt response to the market. In reality, warnings resound that the market is not omnipotent in its capacity to monitor enterprise productions. For example, when applying themselves to market competition, managers are reminded that market signals such as price or demand-supply changes, represent only momentary episodes rather than overall pictures of the entire economy. Moreover, the limited market information that enterprises are exposed to may have already been distorted in the transmission process and thus may not objectively reflect the extant socio-economic conditions. If enterprises have to base their production planning solely on market information, they are said to be likely to rush headlong to the production of a product one moment, but then abandon it in a pothole the next. This will not help realize the goal of optimizing resource allocation aspired for the market mechanism. Worse still, it will likely lead to economic chaos.⁸⁶ Thus enterprises need to keep one eye on the market but still need to keep the other on state macro-economic programs.

The mixed reform messages originated from the incompatibility of post-Mao economic liberalization with political conservatism make it difficult for managers to assume full responsibility. Added to the problem is the fact that details for management reform within the socialist framework are still missing and managers have to develop their own strategies and procedures for juggling the state's economic and political requirements. The uncertainty resulting from this situation has discouraged managers from asserting authority in operation according to market demands. It has also kept the government from fully honoring its promises for decentralization. Thus nearly a decade after the Enterprise Law was enacted,

managers are still not autonomous decision-makers and many enterprises are still wallowing in deficits.

MANAGERS BALANCE THEIR MURKILY-DEFINED RESPONSIBILITIES AND CAREER ASPIRATIONS

A primary objective of installing the responsibility system in state-owned enterprises is to motivate managers—by giving them increased autonomy in their operation—so that they will become more concerned with the cost-effectiveness of their operations and profit ratios. Since enterprises still play a welfare role and allocate social services to their employees—from housing and health care to offsprings' education and employment,⁸⁷ managers' greater power is, in turn, expected to stimulate workers to strive for better performance. Yet increased autonomy "is not only a matter of how much the state will delegate—it is also a question of how much" managers are willing to take.⁸⁸ To date, few managers have shown much interest in answering the challenge of taking full charge and bearing both the good and bad consequences of their operations. As indicated in the previous discussion, the unfavorable reform conditions are important reasons why managers shy away from the challenge. Career aspirations are another equally important but not fully acknowledged factor swaying their decisions on this matter.

To study motives of management's decisions and performances, a questionnaire survey was conducted on 395 managers in 1991.⁸⁹ Among the 213 who responded, only two mentioned the growth of their personal earnings as an objective of management behavior. The majority only signified the increase of profits and workers' compensation, progress of enterprises, greater market share of

their products, and the fulfillment of production quotas as their objective choices. The two who mentioned personal earnings also ranked this objective the least important in comparison to the others. These preferences may imply that managers still take it as their obligations to help increase public property and improve the well-being of workers. Yet they also signify a strong correlation between managers' behaviors and their preferences in career pursuit. In other words, the institutional set-up of their profession and their sense of value developed therein determine that monetary incentive plays a much smaller role in motivating managers than opportunities to sit tight in their position or move up the echelons of the administrative hierarchy.

State enterprises in China are established by the administration rather than by individuals or companies. This allows the sponsoring agencies to appoint leading personnel for the enterprises. Although the administrative affiliation of individual enterprises has been changed back and forth between central and local administrations, the power to appoint enterprise managers has been consistently held by government agencies at different levels.⁹⁰ This situation has also prevailed during the reforms, except for a short interval in the late 1980s when the initial enthusiasm for the contracting system opened the manager's position to virtually anybody who ventured to bid for it and succeeded.⁹¹

The control of government agencies over managers under their jurisdiction does not end when the appointment is made. It extends to their entire careers. This is because only a limited number of new enterprises are set up each year, and hence appointments by government agencies often involve personnel reshuffling among the already established firms. State enterprises in China are hierarchically

ranked according to their importance in the entire economy, the size of their assets, and their production capacities; managers are similarly ranked according to the status of enterprises in which they work.⁹² This means that personnel reshuffling often involves managers' career advances or decline. It is generally considered a career advance, for example, if a manager is transferred to another enterprise on a higher echelon or summoned to take a vacancy in the superior administrative agency. Along with the promotion are often greater power, rights, and privileges. Likewise, if a manager is "reappointed" to a corporation of lower status, he/she is socially believed to have been degraded, although this transfer may not have an immediate impact on his/her income. Even when neither promotion nor demotion is involved, managers still need government agencies to periodically reappoint them since the contract system does segment their secured lifetime tenure.

This continued attachment of managers to government agencies counteracts the effort to remold them into entrepreneurs through the reforms. More technocrats who are appointed to managerial positions in the post-Mao era are still trapped in the administrative hierarchy. Furthermore, since Party branches within government agencies remain involved in the decision making process over personnel affairs, the political qualifications of an appointee for the managerial post remains an important consideration. All this implies that, although managers taking office since the reforms demonstrate better expertise in production than those in the pre-reform times, they identify with their predecessors in seeking to "maintain a smooth liaison with controlling offices."⁹³ The proclivity of managers is conditioned on their being part of the administration per se and hence their expectations to fare well within the institution.

It thus follows that while they may aspire to expand business and economic interests of their enterprises, managers are not willing or ready to risk their positions or careers in asserting responsibilities stipulated by the Enterprise Law. Like typical administrators, their prime concern is to fulfill their assignments from superior agencies. Yet mixed government policies on management and labor reforms and ambiguous terms of references on interactions among different interest groups in the enterprise often make it very difficult for managers to live up to the expectations of the administration. This problem is especially serious when the expectations are spelled out in terms of how managers should focus on efficiency and productivity through utilizing scientific management, but their economic and managerial decisions should not lead to public antagonisms and disturbances on the shop floor. Or, in performing their duties, they should acknowledge the fact that their authority is granted by the Party organization, employees, and government bodies, who are the real "masters" of state property.⁹⁴

To attend to the demands of the government for both efficiency and socio-political stability is risky and often beyond the reach of managers. This is because many problems that occurred on the shop floor during the reforms resulted from the official vague definition of the "socialist market economy." Also, the market system in which managers are expected to plot the course of enterprises is very poorly conceived and charted. The embryonic material, product, finance, and labor markets are far from being integrated as an organic whole and are constantly haunted by conceptual controversies and confusion. Working in such an unfavorable environment, managers are not likely to appreciate greater autonomy in their operations. On the contrary, their administrative attachment to superiors is a

convenient haven to shield many from liabilities for (often unavoidable) false steps and negative consequences. This especially includes those who prove mediocre in their ability to manage, or those whose enterprises are on the brink of bankruptcy. For them, the involvement of government agencies in their decisions not only helps them make peace with their conscience and feel their performances justifiable but also enables them to slink from problems through being transferred or reappointed with their dignity intact.⁹⁵

Yet to secure or advance their careers, managers still have to perform their task assignments given by their superior agencies. That they are intrinsically administrators in the bureaucracy rather than entrepreneurs, however, predestines that they are not likely to launch into practices which are not yet routinized or regulated. They seem more secure and comfortable following norms than testing the still innovative "scientific management" and the uncharted market. In fulfilling government requirements for profits, managers thus continue to resort to lobbying state agencies for lower production and tax quotas. Few of them venture to increase efficiency and productivity through economic measures such as cutting the labor force or motivating employees through differential incentives.⁹⁶ Their qualms about these mechanisms are potential management-labor antagonisms and social instability. They would rather stay on the "conservative" side and stick to institutionalized practices of impartially providing for all employees than risk adverse consequences of labor animosity.

MANAGERS' INABILITY TO ADAPT "SCIENTIFIC MANAGEMENT" AND TRADITIONAL PRACTICES

As discussed earlier, China's open-door policy and economic liberalization have exposed managers to the forum on management as science and discipline. Such an exposure may benefit enterprise management in the long run. Yet managers' inability to relate to the discussion makes it difficult for them to immediately tap its wealth and devise alternative management mechanisms. This results in managers falling back upon the familiar when tackling their immediate tasks. A commonly used mechanism, apart from bargaining with state agencies for more allowances and low profit and tax quotas, is still the old "magic" weapon for mobilizing workers: the mass line.

Although enterprise reforms have given managers permission to use market rules in their work, many of them still think that keeping friendly ties with workers is a more effective way to get good organizational performance. In their discussion of a cooperative relationship between managers and employees, "participatory management" remains a catch phrase. Yet few managers seem able to contribute to the reform literature successful cases of workers' participation in the market-oriented manager responsibility system. Their mass line approach thus embodies primarily the more routine and manageable content: taking care of the well-being of workers. This means to continue providing for housing, medical insurance, sick leave, old-age pension, and funeral services. During the labor reform, loving care also includes arranging replacement for the "unfittest" sifted off through "regrouping," often in better paid jobs.⁹⁷ Some managers continue to take as their obligations assisting employees in finding partners for marriage, enrolling children in

nurseries or schools, settling domestic discords, and pulling through financial difficulties.⁹⁸

The mass line expressed as such obviously sustains the repudiated patron status of state firms and delays the intended change of employment into a market relationship. Yet it remains effective in mobilizing workers. The media often has coverages on cases of how management's loving care touches employees and translates into workers' production zeal, though few detailed studies of this have been recorded in the reform literature. Taking meticulous care of employees, however, is time consuming and troublesome. Quite a few managers thus choose to express their concerns by stretching their budget-allocating authority to give out bonuses. That political institutions on the shop floor are basically paralyzed in their function to motivate workers has also highlighted monetary incentives as the most expedient and accessible mechanism for many in the managerial position to stimulate their work force towards excellence.⁹⁹

With the rampant inflation, the growing material greed, and rivalries for higher incomes among enterprises, the price of economic incentives has rapidly ascended to the point that bonus expenditures of many enterprises have outgrown their output value and hence driven up the constant costs of their products. Even when they are deep in debt, many firms would still rather procure mortgage loans or sell off their equipment and resources than skip paying bonuses for a month. Meanwhile, to minimize disputes and animosities over payments and maintain normal operation, managers continue to equally distribute monetary rewards among workers.¹⁰⁰ This means that before state enterprises have really "smashed" the

relatively empty "iron rice bowl" created during the Mao era, they have already established a much fuller one for everyone to share. The maintenance of the second "rice bowl," however, is more devastating because workers' appetite grows with each "refill," but not necessarily their commitment to better performance. This will ultimately undermine public assets and the state ownership system.

The murky blend of Chinese and western management models not only encourages managers to stick to conventions in their work but also gives them opportunities to abuse their autonomy for their small collective or personal gains. In their discussion on policy and program implementation, Robert Nakamura and Frank Smallwood point out that while "clarity does not ensure faithful compliance, it is a necessary first step toward effective implementation."¹⁰¹ Reflecting this argument, Daniel Mazmanian and Paul Sabatier claim that clear definitions of objectives and specific instructions on their attainment are especially important when a mandated policy or program involves "significant behavioral change of a substantial subset of the population."¹⁰² Management and labor reforms will surely change the ways and perceptions of work and life of millions of Chinese. Yet because of the conceptual complexity of their reform formula, "socialism plus the free market," and the lack of successful precedents in this regard, Chinese reform designers are themselves uncertain about how market rules and "scientific management" from the West should be applied in state firms. Their reform messages for enterprises are thus expressed in an unblended mixture of socialist code phrases and capitalist buzzwords (illustrations of which have been repeatedly drawn in this and other chapters). The highly abstract reform platform and mixed reform mandates give managers little guidance on updating their work to a more "scientific" level. Yet as

Michael Hayes suggested in another connection, they do leave managers, or the "street-level" implementers, plenty room for "administrative," or more accurately, abusive discretion.¹⁰³

For example, in the chorus for market and profits, some managers take advantage of their disposal power over resources and sell on the market the means of production allocated to them through state plans for effortless spoils. Others engage in counterfeiting products of popular brands or marketing poorly manufactured goods that are in demand.¹⁰⁴ Still others exploit the pay-for-performance principle to concoct rules and penalty clauses for "disciplining" workers.¹⁰⁵ Such practices enable managers to reap quick profits with which they can seek rewards from their superiors. Yet these gains add little to state assets or the public well-being. One reason for this is that "profits" from transactions of state-owned resources or fines imposed on workers are often used to replenish bonus funds and subsidize ever increasing administrative expenses of management. Another reason is that large amounts of the "profits" are turned into "spoiling capital" for entertaining superior agencies with feasts and gifts in order to curry favors, or paying for "business banquets" and "business trips" to resorts enjoyed by managers and staff.¹⁰⁶ As for deliberately marketing products of poor quality without any regard for consequences, it does not take much reasoning or imagination to discern the harm that the unethical behavior brings to the general public and to the image of the reforms.

That all these strategies of management foil the execution of reform programs for state enterprises testifies to Eugene Bardach's rather pessimistic

description of the "implementation process." He holds in brief that it is at the mercy of this process that a public policy or program, brilliant or not, manifests itself in the world of behavior. Yet what often occurs in the process is that numerous special interests play out political and bureaucratic games to pursue their desires for power, security, and well-being. Their profuse efforts in self-protection and advancement are usually not compatible with the objectives of the policy mandate, as indicated by the misconduct of Chinese managers in implementing enterprise reforms.¹⁰⁷

SUMMATION

Whether the decentralization attempt in the form of the manager responsibility system will be effectuated in state enterprises and will solve their problem of inefficiency and backwardness hinges largely on the willingness of the government to disperse power and functions. Yet the state authorities are still extremely uneasy about leaving production planning, resource allocation, and labor organization entirely to managers' discretion. Their reservation arises mainly from the concern that China's social and economic environment cannot accommodate the predictable consequences of market competition resulting from the installation of the responsibility system. Moreover, the official rhetoric about the Chinese version of a market economy continues to honor Marxian socialism as its guide and hence perpetuates the centralized political system and the parallel planning mode of thinking. With government agencies still meddling in their managerial decisions, state enterprises, in turn, have not fully committed themselves to the market as typical business entities. Inasmuch as they are encouraged to follow market rules in

labor management and enlarge the profit volume, managers continue to operate on the prevailing socialist principles and compromise reform measures to avoid potential political liabilities and social instability.

Enacting the Enterprise Law and holding managers responsible for production and management, on the other hand, do not automatically make them entrepreneurs. Because the success of enterprise reforms is in part determined by how managers translate reform policies and programs into actions, post-Mao China has established numerous management training programs to help them change from bureaucrats to entrepreneurs assuming responsibility for the survival of their corporations and measure up to the reins of control. Yet clouded by confusion attending the superficial conciliation of the socialist order to a free market economy, these programs fail to give them substantive guidance on how techniques of the commended "scientific management" should be tailored to their own operations. Left alone to probe the intangible "socialist market economy," most managers are apt to be more "conservative" but politically correct than to put their career and prestige in jeopardy for better market results.

In fact, the socialist crown on China's market economy has already ruled out the necessity for managers to remodel enterprises for market competition. One crucial precondition for market competition is the existence of multiple economic entities on equal footing. Yet China's market economy sustains the dominance of state ownership as a major indicator of its socialist orientation. This places state enterprises in a privileged position in the market and promises them continued state rescue from probable financial distress. A market economy as such is not likely to stimulate managers' sense of competition or fill them with the urge to improve the

cost-effectiveness of their operations. The market element, however, allows some managers to exploit their power allowed by the responsibility system for personal gains and advance. The demoralizing and economically destructive impact of the misconduct makes the government more hesitant to honor its decentralizaion commitment.

ENDNOTES

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¹⁰³ Michael T. Hayes, Incrementalism and Public Policy, (New York: Longman Publishing Group, 1992), p. 3.

¹⁰⁴ Yao Yize et al., A Perspective Drawing of China, 1956–1992 (Beijing: Publishing House of the Central Institute of Nationalities, 1993), pp. 344–354. (zhongguo da toushi, 1956–1992)

¹⁰⁵ Department of Technology and Labor Protection of the All-China Trade Union, "How Can the Bring the Initiatives of Staff and Workers be Brought into Play in Enterprise Reforms?" Economic Structural Reform of China, No. 1, 1989, p. 47. (zai qiye gaige zhong ruhe fahui zhigong laodong jijixing)

¹⁰⁶ Yao Yize et al., op. cit., pp. 267–268.

¹⁰⁷ Eugene Bardach, The Implementation Game: What Happens After a Bill Becomes a Law, (Cambridge, Mass.: The MIT Press, 1977), pp. 9, 42, 148, and 250; and Giandomenico Majone and Aaron Widavsky, Implementation as Evolution (extracts) in Stella Z. Theodoulous and Matthew A. Cahn, Public Policy: The Essential Readings, (Englewood Cliffs, N.J.: Prentice Hall, Inc., 1995), pp. 140–143.

CHAPTER 7

THE HEGEMONY OF SOCIALISM: WORKERS' RESISTANCE TO USE OF MARKET RULES IN INDUSTRIAL LABOR MANAGEMENT

A stated target of China's economic reforms in the urban industrial sector is to raise workers' productivity by instilling a disciplined approach to management. It is expected to occur specifically through the manager responsibility system, contract labor systems, labor rationalization programs, and monetary rewards and punishments. The focus of the reform is on dismantling the egalitarianism that reportedly prevails on the factory floor in the form of life-time job security and equal distribution of wage incomes and fringe benefits. This reform agenda has the virtue of suggesting that the existing labor-management mechanisms, which have been formulated on the conception that the working class is the mainstay of China's socialist system, have inculcated "a lazy work ethic in workers" and caused "the ills to which industrial production is said to have befallen during...the entire Maoist era."¹ To remove the "laziness" and make workers function at their maximum capacity, and to render economic output efficient, it sounds only logical to introduce "scientific management."

Yet despite the negative characterization of workers and public criticism of China's traditional socialist employment and welfare rationalities as being "insufficient to generate the incentives required for improved productivity,"² the clamoring rhetoric for efficiency and productivity has not yet been translated into changes of the parameters for the operation of state enterprises. The stated problems of overstaffing and "everybody eating out of the iron rice bowl" remain uncontested, and two-thirds of state firms are reported to have been operating in

the red since 1989.³ Worse still, official statistics indicate a steady increase of the amount of industrial deficits.⁴

One important explanation for the ineffectiveness of the management reform lies in the fact that while Chinese leaders seek to reinterpret socialism as an ideology of modernization and try to expedite economic development through the "magic" of the "invisible hand," they do not problematize socialist institutions that matured in the context of the Mao era. For example, the regime has opened its door to whatever economic mechanisms that promise the best efficiency. It has however made no attempt to do away with the predominant position of state ownership in the economy. Although it has heightened the authority and autonomy of enterprise managers in organizing production and handling employment- and welfare-related affairs, it also chronically revives the rhetoric of workers being "masters of the house," "whose power over the enterprise and rights to the public wealth are bestowed and protected by the constitution and laws."⁵ Finally, while enterprise reform is explicitly informed by the premise that economic inequality is an effective and inevitable means to stimulate work effort and economic development, the official discourse also emphasizes that the road to modernization and prosperity should "be accompanied by more equitable distribution of wealth than would be true in an environment of untrammelled capitalism."⁶

Since China's economy functions within its political framework, and its market-oriented reform "embraces the complete fabric of political, social and economic relationships,"⁷ the failure to reconstruct the meaning of socialism implies that the established socio-political system will both impede the introduction of

changes in labor-management interactions and the values placed on their respective behaviors, and also define the parameters of change that do occur. Thus, as long as state ownership is stressed as the major embodiment of China's socialism, the unity between workers' dual social status as both laborers and proprietors is sustained. Although this unity of status is often argued as being prevalent merely in theory, its legitimate influence on regulating management procedures and formulating employment and distribution practices does challenge the reform effort to enhance productive efficiency through the introduction of labor discipline, a hierarchical wage and bonus system, and a labor market.

Many reasons may be listed to explain why post-Mao leaders stick to the state ownership system and the principle of universal prosperity in management and labor reforms, even though their resolution to improve efficiency and promote productivity of the state industrial sector has effectuated heightened enterprise autonomy in production and profit allocation, increased initiative and authority of enterprise managers, reduced job security, and also created wider wage differentials and higher levels of unemployment.⁸ The most easily perceived reason, however, is to perpetuate Communist rule in China. Although post-Mao leaders have voluntarily given up some of the authority of the Communist Party in the economic sector and opened it up to free-market economies, they profess that these moves do not signal the beginning of a gradual stepping down of the Communist Party from the throne of power. The moves are, rather, "self-perfecting efforts" aimed at consolidating the leadership of the Communist Party.⁹ Given this objective, it is difficult to imagine that Chinese leaders would push the reforms beyond the last frontiers of China's socialism, i.e., the state ownership system and equitable distribution of

societal wealth. For, should the socialist nature of the economy change, the relevance and legitimacy of the Communist rule would be open to question. The state ownership system, furthermore, assures the administration of a physical foundation as it keeps a large portion of the economy under the control of the government and provides it with resources that are indispensable for its operation. Official data indicate, for example, that while industrial sectors under other types of ownership systems have been thriving since the commencement of the economic reforms in 1978, the output value of state enterprises still amounts to 56% of the total industrial output value, and 79% of the state revenue relies on the taxation of state firms.¹⁰

Another generally accepted reason for the leadership's reluctance to initiate institutional changes in the enterprise reform is the fact that Marxism negates the free market, but its suggested replacement is not elaborated in any manner that would give its followers specific guidance for building a post-capitalist economy. Chinese Communists acknowledge their debt to Marx's vision for the inspiration of their socialist revolution. Post-Mao leaders also maintain that ideological enlightenment is imperative for the success of their market-oriented reforms. They still require administrators at all levels to devote time to studying Marxist doctrines. Deng Xiaoping asserts that such familiarity with Marxism will enhance their sense of principle, foresightedness, and creativity in decision-making.¹¹ Yet if the lack of detail renders Marxism stretchable to allow room for economic reforms, its basically negative stance toward the market makes it barely capable of enlightening post-Mao China on how market incentives and market regulations should be incorporated in a socialist economic system.

Another equally crucial factor that interferes with the reform agenda for state enterprises is workers' continual attachment to socialism. Many scholars of reform have ignored this factor in their research, dwelling instead on factional strife within the leadership over development policies, on the pursuit of the best possible mechanism for improving productive efficiency, or on the orientation of reform after Deng. They seem unwilling to recognize that workers' reluctance to give up their material benefits from socialism for vague promises of the reforms signifies, in Antonio Gramsci's terms, a certain degree of conscious agreement with the core elements of the political system. One element of specific relevance here is, the "moral standards about the societal distribution of benefits and about the worth of institutions of authority and order by which this distribution is brought about, changed, or maintained."¹²

The lack of in-depth study in this regard may indicate that many students of reform have underestimated workers' impact on decision makers and managers to follow through on enterprise reform. They do not seem to realize that while workers' social standing may be weakened by the installation of the manager responsibility system and labor disciplinary measures, their very involvement in enterprise reform gives them the power, as Anthony Giddens has pointed out, to challenge and transform the dominant interpretations and procedures of the reforms. This two-way power relationship enables workers to contest the widespread fixation with productive efficiency, which, in turn, helps reinforce socialist institutions and perpetuate the established modes of conduct on the shop floor.¹³

WORKERS' CONTESTATION OF THE REFORM DISCOURSE

Most state industrial workers may not deny, in principle, the official rationale for management and labor reform. Yet they have not demonstrated the same sense of commitment that they did for many other political and production campaigns initiated by the Communist leadership. Their reservation about the reforms does not seem to stem merely from dissatisfaction with being pressured to yield every aspect of their lives to the concern of "efficiency" and "productivity." A close examination of their often antagonistic responses to reform measures reveals that workers also take issue with the changing interpretation of social values, norms, and relations reflected in the proposed new employment and wage policies. The fact that they make frequent references to basic socialist principles in their contestation of reform procedures not only adds great political weight to their voice of opposition but also attests to their attachment to many institutional features of socialism.

Workers' resistance to enterprise reforms is detectable at two levels: (1) through their generally skeptical attitude towards post-Mao China's fervent attraction to market forces, and (2) by their defiance to many changes—actual or perceived—on the shop floor. Ample indication of their resentment has been recorded in local and national surveys of public opinions on reform issues.¹⁴ One such poll, for example, was jointly conducted by the Science and Technology Commission of China, the Ministry of Public Communication, and Lookout magazine in 1988, before the market element had been introduced into enterprise management. Its findings revealed that 52.7% of the workers who returned the questionnaires expressed their satisfaction with the reforms.¹⁵ Yet in 1991, when the pressure for marketization of the state economic sector intensified, a similar

survey conducted in Changde City, Hunan Province, found that 81.9% of the respondents either explicitly affirmed or did not deny their belief in socialism. Seventy percent of them also stated that should China practice capitalism, "the nation would fall into chaos."¹⁶ In 1992, when the "socialist market" was finalized as the economic model for the "primary stage" of China's socialism, the Institute of Sociology of the Chinese Academy of Social Sciences found, through its survey in eighteen cities of six provinces, that 64% of industrial workers were not in favor of expediting the market-oriented reforms. Moreover, 47% of workers were not convinced that the reforms would, as expected, enable the Chinese populace to become financially well-off before the end of this century.¹⁷

It is common knowledge that workers have witnessed rapid improvement in their living standard during the market-oriented reforms, even after adjusting for rampant inflation. Yet their judgment of the market forces does not seem exclusively grounded in their improved accessibility to better foodstuffs and more consumer goods. Their assessment is, rather, based more often on how they perceive their status in comparison to that of other social groups when changes in distribution of privileges and incomes occur. In other words, since disparities between their benefits from the market and those of many other interest groups are widening to their disadvantage, workers believe that they have descended in the social stratification and hence suffered losses from the reforms.

A focus of workers' dissatisfaction is the changing intra-enterprise relationship between management and employees. Many workers complain about their increasingly humble positions in the labor hierarchy, mocking that the reforms have marginalized "the elder brothers" (an honorific title of industrial workers) by

granting management autonomous power to pressure and discipline them for better market returns.¹⁸ They contend that the conception of the management and labor reforms does not observe the principle of workers being the ruling body in state/whole-people-owned enterprises¹⁹ and believe that reform measures such as contract systems, labor optimization procedures, the removal of job security, and the establishment of a labor market, are, in effect, attempts to convert the "masters of the state" to wage laborers.²⁰

To gain a general picture of the scale of labor discontent, the All-China Trade Union conducted a survey in 17 cities in 1988. Its findings showed that 87.8% of the 210,000 workers surveyed perceived the enterprise reforms as being management-centered and criticized the leadership for no longer relying "wholeheartedly" on the "industrial working class." The workers maintained that the overemphasis of the managerial role and authority encouraged managers to treat workers as reform targets rather than participants and to resort to discipline and punishment as main productivity stimuli. This, as the survey recorded, greatly upset workers and demoralized them to the extent that they failed to perform to their full productive potential.²¹

With steady marketization measures both pushing managers to become increasingly business-oriented and encroaching upon workers' job security and other benefits, labor-management tensions worsened in the early 1990s. For example, the Economic Institute of the Chinese Academy of Social Sciences found in 1990, from a sampling unit of 769 state enterprises, that most workers were unhappy about the fact that (except for issues of bonuses and housing) their involvement in

managerial decisions was reduced to nil.²² Another survey of 2,300 urban residents conducted around the same time by the Chinese Research Center for Promotion and Development of Science and Technology discovered that among all aspects of their jobs, workers were least satisfied with their opportunities for vocational training, promotion, and higher incomes. They regarded the diminishing of their formerly-inviolable rights to education, managerial positions, and welfare privileges as an indication of their declining social status and held the management-centered reforms and enterprise authorities responsible for their "losing out" in the "second revolution."²³

In their daily encounters with management, workers' antagonism is especially acute with respect to reform procedures that directly threaten their livelihood and employment. Between 1990 and 1991, for example, they openly reproached the second round of contracts and leases signed by enterprises with the state, which further expanded the responsibility and authority of management. Many workers dreaded that more obligations would mean a greater urge on the part of managers to translate market rules into their daily management applications. Resentful of top-down enforcement of meticulous rates and standards for all posts and tasks in production, they compared "scientifically organized" labor to "conscript labor under surveillance" and derogatorily nicknamed managers "quasi-capitalists" who sought to stimulate productivity by rigorously following the "performance indicators" to reward and penalize employees.²⁴

Labor-management contention has dramatically intensified since the spring of 1992 when reforms in the state industrial sector were directly targeted at the

tenured employment system. Workers have demonstrated extreme hostility toward the campaign against the "iron rice bowl" as it threatens both the stability of supplies for the daily needs of their families and their sociopolitical legitimacy to make demands and to influence policies and decisions. This popular anxiety over changes in the employment system, in other words, arises from the fact that full-time employment in the public industrial sector is "a value in itself" as many social services are delivered at the state workplace rather than through other channels.²⁵

Specifically, while an important agenda of China's current reform is to gradually have society at-large provide the "life-support" system, most urban residents at present continue to depend on a state employer to fulfill such necessities of everyday life as housing, health care, child-care and education, retirement pension, and even recreation and entertainment.²⁶ Moreover, as long as China claims its socialist identity, full-time employment in state industrial enterprises will keep otherwise ordinary individuals crowned with such titles as "owners of the means of production," "members of the ruling class," and "masters of the country."

These honorary names not only attach social importance to workers but also allow them great leverage in bargaining for economic benefits and making political demands. Finally, given the fact that the Communist Party and its affiliates, the Communist Youth League, the Trade Union, and the Women's Federation, function and recruit in cities mainly through their branches in enterprises and other public institutions, being employed by state firms gives individuals the access to the membership of these organizations and hence entitles them to direct involvement in decisions involving their own well-being.

Fully aware of the relationship between their full-time employment in state enterprises and their political celebrity and economic welfare, workers have resorted to every means to nullify labor reform procedures that are meant to transform employment into a market relationship subject to changes in enterprises' demand for labor. A common strategy in this capacity is to bring political pressure onto management by holding it to the governmental principle that reforms should not interfere with the socialist orientation of China's economy and should protect the interests of the working class. Referring to the official rhetoric of "the superiority of the socialist system," many workers remind politicians and enterprise managers that the "iron rice bowl" was originally created to contrast the "beggar's bowl," which the Communists had promised to help laborers "cast off" once they were in power. They satirize the policy of employment by contracts, the program of "labor optimization through regrouping," and the proposal for a labor market, saying that while Mao provided laborers with job security and steady incomes, Deng and other reformists are doing everything to substitute this "iron rice bowl" with a "ceramic" one which looks better but is easier to break. They keep making the leadership and enterprise management uncomfortable about enforcing reform measures by continually bringing up the difficult question: what is superior about socialism if it cannot assure laborers a secured job and livelihood?²⁷

When management defies political pressure and pushes market incentives in its organization of labor, workers "get tough" as well. For example, managers sometimes assert their authority and attempt to streamline the work force by "regrouping" those whom they regard as unqualified, recalcitrant, or physically unable; they take workers off the production lines and place them in "labor service

companies" with reduced pay. These managers, however, often quickly find themselves bombarded by grievances filed with government agencies, or with higher levels of the Trade Union and the Women's Federation.²⁸ They also find that these higher administrative organs are often too concerned about social stability to uphold their decisions. Unwilling to face potential consequences alone, managers often choose to back down and "reappoint" the workers in other posts with full benefits. As such reappointments often involve the creation of new positions, many enterprises have ended up with a large percentage of personnel in nonproduction-related services. The manager general of a key enterprise, the East-Wind Automobile Company, revealed, for example, that by 1994 employees engaged in clinical service and "cultural and educational" work alone had already amounted to 10 percent of the total labor force of his enterprise.²⁹

There are, however, managers who dare to challenge the pressure from both below and above in their pursuit of work-related accomplishment. When encountering such "bosses," many workers become confrontational. In the spring of 1992, for example, some profit-driven managers were determined to "smash the iron rice bowl" with "steel hearts and fists." They resolutely "sent home," or partially laid off, a fairly large number of surplus employees and offered them severance pay of only 60% or 70% of their normal wages and no bonuses. Many of the laid-off were outraged and wrangled bitterly with management. Some even resorted to violence. According to widespread rumors, quite a few managers were killed by workers during the campaign against the "iron rice bowl," and numerous more were physically attacked or injured. Worried about their safety, managers in many cities were stated to have hired body guards or carried electric-shock guns.

Some managers in Sichuan Province reportedly went to work in bullet-proof vests, and others in Wuhan city were said to have requested government agencies to provide firearms.³⁰

In addition to workers' anxiety over the impact of changes in the employment policy on their welfare and the implications for their social prestige, their animosity against management is also fueled by the increasingly wide gap between labor and management in work conditions and compensation. They protest, for example, that when economic crisis occurs and the market "forces" (with state approval) debt-ridden enterprises to go bankrupt, workers are laid off while managers are transferred to other posts. Indignant at the differential treatment, employees of these firms often categorically refuse to accept the "choice of the invisible hand" or to seek other employment opportunities. Instead, they pressure local government with petitions for replacement or demonstrate for the repeal of decisions of bankruptcy. Realizing that it is more difficult and consequential to let a state enterprise "die" than to keep it alive, many government agencies have chosen to "save," unprofitable firms rather than encourage the market to send them into "coffins." Yet whether they "revive" such enterprises through subsidies or merger, or "persuade" profitable firms to take in workers from these enterprises, their remedial measures have not seemed able to wipe out workers' distrust of management. Today, few believe that managers are still "servants" of laborers and share equal risks in a market-oriented economy.³¹

Workers are also enraged by the ever-widening income disparities. Applying the official definition of "socialist relations of production," workers fault the assertion that managerial work is complex labor and should be rewarded in great

excess of workers' "simple" labor. They insist that enterprise production and profitability, in essence, rely more on workers' performance than the expertise of managers. They are infuriated that the reforms give managers not only the opportunity to abuse their power to set high salaries and "post allowances" for themselves, but also give them the incentive to chase after profits in unscrupulous ways, including coercing and laying off workers so as to draw extra dividends promised in their contracts with government agencies. Workers contend that since managers of state firms are permitted to share profits with the state, they have become de facto capitalists without capital.³² Feeling deprived and helpless because the reforms have not created new check-and-balance mechanisms on the shop floor, or new means of protecting their rights and interests, more and more workers are alienated and openly express their nostalgia for Mao and life under his leadership.³³

WORKERS' UNWANING ATTACHMENT TO SOCIALIST PRINCIPLES OF MANAGEMENT

SOCIALIST CONCEPTS AS LIVED EXPERIENCES

Joseph Fewsmith recently reminded scholars of China that although the "de-Maoification" of the reform period has notably pushed back China's ideological frontiers, ideological formulations continue to play an important role in post-Mao politics and economic development. The agenda for enterprise reform, for example, is laden with conflicts and compromises between socialism and the free market economy.³⁴ The competition between the enduring socialist orientation of the state industrial sector and its headlong rush for profits and efficiency is, however, not

merely confined within the bureaucracy, or to an abstract level. It is also reflected, as should be apparent from the previous discussion, in ordinary workers' perceptions of and responses to reform issues. One may easily notice a deep socialist imprint in workers' strong support for continuing the equitable welfare net of stable employment and subsidized medicine, education, and housing, and their resentment against the new concentration of power and wealth.³⁵ While workers' explicit attachment to the socialist ingredient of "market-socialism" may have frustrated the institution of market rules and incentives on the factory floor, it helps state firms remain on the track of socialism, which in turn perpetuates the relevance and legitimacy of China's Communist leadership amidst the anti-Communism revolution that has swept Eastern Europe.

The strong impact of Chinese workers' attachment to socialism has prevented many institutional changes from taking place. This testifies to Antonio Gramsci's hypothesis that a stable and lasting social order must embrace "a substratum of agreement so powerful that it can counteract the division and disruptive forces arising from conflicting interests."³⁶ Elaborating on this assertion, Gramsci states that no matter how authoritarian a regime may be in contemporary society, its domination cannot be expected to endure solely through coercion and violence. To assure a long-lasting rule, or "a permanent and stable hegemony," it has to cultivate a "popular" and "voluntary" acceptance of the established sociopolitical order by "instilling its particular cultural and moral beliefs in the consciousness of the people."³⁷ The organization of such a widespread popular consent is absolutely fundamental for the success of a political power and its

movement. The development of China's enterprise reforms serves as a good illustration of this argument. Workers' refusal to let the "invisible hand" take away what they have achieved in the socialist system implies their endorsement of socialist values. It is exactly this deep socialist imprint on their attitude that makes post-Mao leaders' aspiration to maintain China's socialist orientation not only reachable but still a hard fact almost two decades after the advent of the reforms. Yet it is also because of this ideological bond between workers and conventional socialist institutions that the market forces have not been effective in transforming the management of state firms. In order for market rules to function, the leadership thus has to create a "counter-hegemony," or help workers internalize an alternative system of values, beliefs, attitudes, and morality, as the Gramscian argument suggests.³⁸ Reshaping workers' conception of their work and life under socialism, however, has proven extremely difficult. In addition to the political sensitivity of the theoretical controversy over the issue, the significant role of socialism in every aspect of workers' social life does not seem easily replaceable by offers of the market.

For many Chinese workers, the establishment of a socialist system in China does not necessarily represent a triumph of Marxist philosophy. Most in fact have very limited knowledge of Marx and his ideology. Nor is socialism an abstract entity instituted from above by the Communist leadership. Socialism carries the weight it does among Chinese workers mainly because of its "significant practical role in China's national integration and development" and its concrete contribution to popular welfare and the national autonomy.³⁹ To use the concise expression of Barry Richman, socialist revolution appeals to the Chinese populace because it has

realized their dominant aspirations: freedom from decades of foreign domination and civil wars among domestic warlords and, more importantly, a better life.⁴⁰

Ordinary Chinese workers do not perceive socialism as an intangible ideology with remote promises. It is, instead, part of their lived experience in the context of everyday life. Before the establishment of socialism in China, enterprises provided workers with only a meager monetary wage. There did not exist any kind of welfare system to protect basic living standards, even though "turn-over was on the border of 50–100 percent annually in the major enterprises, and the labor force was subject to wholesale layoffs in economic crises and wars "⁴¹ In contrast to this bleak picture, workers' living standard has been elevated by an impressive margin under the socialist system. Empirical data supporting the improvement are well-documented by scholars of China.⁴² With "high levels of subsidy for their health, education, accomodation and transport costs," there is "a quite genuine sense in which Chinese state enterprise workers enjoy conditions which are exceptional for a third world country." Their "security of employment, pension rights, maternity leave and child care provisions, attendance requirements and other conditions might even be envied in parts of the developed industrial world."⁴³ Yet, unlike their counterparts in Western enterprises whose interests are articulated and represented mainly by union movements, Chinese workers' material benefits are delivered and secured directly by the socialist system. This explains, among other reasons, why more than 90% of workers insist that if the reform is not to change the socialist nature of China, it should not scale down, let alone eliminate, their welfare blessings, which they believe constitute an important content of socialism.⁴⁴

Moreover, since the substantial and stable welfare benefits are distributed mainly through state enterprises, working in the state sector remains an ideal job for most urban residents even amidst the formidable temptation of the market.⁴⁵ The disparity in welfare arrangements between sectors and the high job demand for state firms, in turn, reinforce workers' attraction to employment in state enterprises and their attachment to the socialist mode of production.

In addition to superior life conditions, the Chinese Communist revolution and the socialism that flowed from it have also opened up a new world of a popular, participatory politics for state enterprise workers.⁴⁶ Through their direct observation of the populace and the logical necessity, Mao and his associates arrived at the theory of the "mass line" as an effective way to mobilize and garner massive support required for successful revolution and development.⁴⁷ As applied to industrial firms, the "mass line" was specified to mean "workers must be allowed to become 'masters' in the factory by participating in the management of the enterprise."⁴⁸ While it may be argued that the Communist leadership has never been able to institutionalize its experiments of participatory management into an ongoing system of workplace democracy,⁴⁹ workers' involvement in the formulation and implementation of decisions affecting the enterprise's operations and their welfare has reached an unprecedented scope in Chinese history. Not only did numerous government ordinances and political movements before the current reforms make the principles of "manager participation in productive labor and worker participation in management" and "manager-technician-worker joint leadership" ritual motions on the shop floor. They also enabled a substantial number of workers to rise up to

leadership positions in enterprises and government agencies. Promoted from the ranks of the working class, these cadres had a natural bond with ordinary workers and were apt to solicit workers' opinions when formulating plans, solving problems, and implementing policies. All this helped workers develop "a strong sense of belonging, a sense of being masters in their own factories. They know that they have a say in the running of the organization and that their needs and welfare will not be unduly ignored."⁵⁰

To Chinese workers, socialism thus involves not merely a set of abstract doctrines but also a way of work and life. The experiences and effects of its vision of and approach to development that is built on egalitarian values and popular participation run very deep in their minds. By promoting the rule of the market and professionals, the enterprise reforms have evidently failed to adequately estimate the strong influence of socialism on the state industrial society and the force of workers' positive responses to it. Yet until they squarely face the situated folk conception of socialism and workers' conviction that reforms are turning them into "hired laborers," reform architects have few chances to obtain workers' blessing for their project. To avoid an outbreak of social insurrection, they will have to continue to compromise reform procedures and subsidize the welfare arrangement of state enterprise workers, at increasingly higher levels. For if nothing else, the market forces have definitely enlarged workers' appetite for material benefits.

FROM LIVED EXPERIENCE TO POLITICAL CONSCIOUSNESS

While Chinese state enterprise workers have undoubtedly been beneficiaries of socialism, their privileged life experience did not spontaneously generate the

proletarian consciousness required for their active participation in China's Communist movement. For as Gramsci's theory of revolution points out, "objective material interests are not automatically or inevitably translated into class consciousness," and nor does the knowledge of "socialist truth" emanate naturally from the conditions of production.⁵¹ It instead flows from the masses "through the channel of an elite in which the conception implicit in human activity has already become in a certain measure actual consciousness; coherent, systematic, precise, and decisive will."⁵² Until their thought, values, and experience merge with theory and become their consciousness, the masses will not be "a part of a determinate hegemonic force" but remain "a subordinate, particularistic mass of disaggregated individuals."⁵³ Yet although

revolutionary consciousness, for Gramsci, is not something inherent in proletarian experience, neither is it something that is simply injected into the masses from without; rather, it is to be, in large measure, mobilized from 'within', by drawing upon and shaping the spontaneous impulses, insights, and energies of the masses themselves.⁵⁴

Thus, to elevate the masses' "common sense" of the socialist conception of the world accumulated in everyday life to revolutionary consciousness, "[W]ays must be found of reaching the masses in terms of their ideas, their aspirations, their reality" (original underlines).⁵⁵

It is debatable whether Mao and his colleagues had ever been exposed to the works of Antonio Gramsci. Their efforts to solicit grass-roots involvement in revolution and development through the "mass line" resonates, however, with the tenet of their Italian colleague. Yet Chinese Communists under the leadership of Mao did not easily reach their concepts and strategy of participation. It took them quite some time and many mistakes were made before they agreed among

themselves that they needed maximum popular support in carrying their revolutionary project to success and that commitment of the masses would not drop into their laps like a ripe fruit but had to be worked for.⁵⁶ It proved a formidable task to implement the "mass line" and help the working class conceptualize its pre-revolutionary experience in the Marxian discourse of class struggle, thereby gaining a sense of political efficacy and power. Jack Belden's vivid account on how difficult it was for Communist cadres to persuade one poor peasant in Stone Wall Village to participate in land reform in 1945 may serve as an indirect but pertinent example. According to Belden, they held "twenty-three formal talks" and "numerous evening talks" over fifteen days just to convince the peasant that he was poor not because he had a "bad brain" but because of exploitation and that the folk saying "a poor man has no right to talk" was wrong.⁵⁷ Through the intensive efforts of the Communist Party, the working class eventually dispelled its "historically formed sense of social inferiority and political inefficacy" and actively participated in destroying the social classes to whom it had felt inferior and against whom it had felt weak.⁵⁸

Since the Chinese Communist movement was targeted at erecting a "proletarian dictatorship" headed by the Communist Party, Mao and his associates made even greater efforts in the revolutionary years and beyond to help workers win control over the new political machinery established during the revolution. As discussed in Chapters Two and Three, they launched a series of political campaigns and issued innumerable governmental policies and regulations to transform China's political structure and social stratification and to legitimize and increase access of

the ranks of laborers to administrative positions at all levels. In order to secure workers' involvement in deliberations and the discharge of enterprise and public affairs, the Communist Party in the Mao era also tried hard to help them assimilate the prevailing political discourse through various forms of study sessions and discussion meetings. Although most workers had not even finished primary education, through myriad "study campaigns" and use of Marxist-Leninist primers, they did manage to learn by heart the principal concepts embodied in a few Marxian classics in their most simplified forms. Thus, not only did the Communist Manifesto, Das Capital, The Civil War in France, the Critique of the Gotha Programme, Anti-Duhring, and On Imperialism, become familiar to them, but terms like "class struggle," "eliminating private ownership," "capitalist exploitation through turning labor into commodity and appropriating surplus value," "the spirit of public service of the Paris Commune," "laborers are the masters of society and leaders are public servants and should not be paid more than skilled workers," "the proceeds of labor belong with equal right to all members of society," "capitalism is doomed and will inevitably be replaced by socialism," etc., also became an accepted regular part of workers' everyday language. Repeated use of these ideologically constructed discursive expressions both sharpened workers' sense of social importance and, more importantly, cultivated among them a system of values, beliefs, morality, and attitudes that informed their interpretations and practices in state-labor-management interactions.

In addition to elevating the social status of the working class for the "proletarian dictatorship," the Communist Party also exhausted all available means and resources to coax the entire society to accept and become used to the new

image of workers as the masters of the enterprise and the country. Whether or not by coincidence, Mao and his colleagues resorted to the mediational role of "intellectuals as salespersons" of the image, just as Gramsci suggested.⁵⁹ They mobilized poets, essayists, novelists, playwrights, film directors, news reporters, editors, painters, singers, dancers, and teachers to idealize the virtues and achievements of the working class. Mao even took personal interest in the creation of a few of their works. From 1942, when Mao advanced the principle that "revolutionary literature and art should serve the workers, peasants and soldiers" at the forum on literature and art in Yanan, to the mid-1970s, thousands upon thousands of artistic works and textbooks were created and compiled. These portrayed workers' sufferings in capitalist factories, describing their "heroic deeds" in the revolution, "decisive roles" in economic development, "wisdom" in technical innovations, and "capability" in leadership and management. Through these works, quite a few outstanding workers even became national heroes and their names became known in every household. Repeated representations of the almost deified image of the working class on the stage and in books ultimately enabled Chinese society to visualize workers as "masters" and administered individuals to live their roles within the socialist class structure.

Some people argue that such expressions as "the working class is the leading class" and "workers are masters of the country" are only myths. Even if this were the case, workers' negative reactions to the reforms indicate that these "myths" are "value-impregnated beliefs and notions" which they hold and live by. This is because they extract from these "myths" "meanings that express their needs and desires."⁶⁰ It is because of the myths that workers feel alienated by the

current reforms, which they believe glamorize market forces and highlight managerial expertise but regard themselves as obstacles to better productivity and efficiency. It is also because of the "myths" that workers resent the flood of "reform art and literature" which glorifies intellectuals, professionals, and entrepreneurs.⁶¹ They miss the Mao era when "model workers" rather than "beauty pageants," "pop idols," or "movie stars" were celebrities, and when workers were entertained as honored guests by "public servants," at national holidays.⁶² The prevailing "myths" of the workers, in conclusion, do not reflect the current framework of values, meanings, and behavior norms presupposed by "cost-effectiveness," "profit maximization," "labor discipline," "professionalism," and many other expressions of the market. To win workers' support for their "market socialism," post-Mao leaders, therefore, will have to first create an alternative "myth" or a "counter hegemony."

CULTURAL ROOTS OF THE APPEAL OF SOCIALIST MANAGEMENT

Peter Drucker once said,

[w]hile management is a discipline—that is, an organized body of knowledge and as such applicable everywhere—it is also 'culture.' It is not value-free science. Management is a social function and embedded in a culture—a society—a tradition of values, customs, and beliefs, and in governmental and political systems.⁶³

This definition of management characterizes, at a deeper level, the complexity of China's market-oriented reforms in the state industrial sector. Chinese enterprise management is indeed not only ideologically constructed, but also culturally conditioned. In their research on post-Mao politics, Randle Edwards et al. note that it is very difficult to determine the extent to which the Chinese ideology,

institutions, beliefs, and values are socialist, and the extent to which they are the reflection of Chinese traditions.⁶⁴ This accurate summary of contemporary Chinese society implies that attempts to recreate China's socialist "hegemony" must not overlook the cultural factor underlying the prevailing socialist paradigms contained in the "common sense." It also suggests that reform-prompted managerial concepts and measures should respect Chinese "traditional knowledge" which informs both workers' and managers' interpretation of and participation in social and productive activities. Otherwise, no matter how "scientific" the concepts and procedures are, they may not win the hearts and minds of workers or generate the responses and behaviors that are desired.

When discussing the compatibility between Marxism and Confucianism, Dow Tsung-I emphasizes affinities between their socio-political ideals and the principles underlying government and social life.⁶⁵ Parallels between these aspects helps explain why Marxism prevailed over other Western schools of political thought from which Chinese nationalistic intellectuals earnestly sought guidance, at the turn of this century, for saving China from the humiliation of being battered by foreign powers. They also played an important role in enabling the Marxian socialist vision of development to attain a stronger appeal to the average Chinese than was attained by several other approaches advanced around the same time by other Chinese professionals also interested in building a strong nation. These other approaches included "promoting Western medicine," "introducing science from the West and establishing a new culture," and "developing industry." One fundamental similarity between the Marxian and Confucian philosophical systems is that both ascribe to a classless utopia. Although Marxism believes that the path leading to

this goal is class struggle and Confucianism emphasizes the "golden mean" or the everlasting harmony, one may easily see the analogy between the Marxian prophecy that the breakdown of the whole system of private property would unleash the massive production power of mankind to create an economic abundance enabling "each according to his needs," and the Confucian ideal society in which the elderly are well-fed and warmly-clad and the common people enjoy ample food and clothing.⁶⁶

The notion of achieving social equality through the abolition of private ownership, upon which the Marxian conception of socialism is built, may also find references in Chinese history. Strong as the influence of Confucian commitment to hierarchical ranks with differential rights and privileges was on Chinese society, it did not prevent the idea of egalitarianism from taking roots in Chinese tradition and enkindling numerous peasant uprisings for "equally sharing out land and wealth." Based on the evidence of the incessant mass rebellions after the Three Dynasties (ending in 256 BC), Feng Tzu-yu, a close associate of Sun Yat-sen, even asserted that "the Chinese created socialism several thousand years ago."⁶⁷ Although the traditional Chinese egalitarian inclination did not encompass the entire substance of the Marxian version of socialism, as Feng conceded, the principle of "equally sharing out land and wealth" seemed to have more in common with the conception of public ownership of means of production and equitable distribution of results among all social members than with the principle of "equal opportunity to compete," which is a stated creed underlying the free market.⁶⁸

Another doctrinal corollary of the abolition of private property that fits comfortably into Chinese cultural heritage is the professed restratification of society, and thereby, the elimination of social alienation. According to Marx's affirmative commentary on the attempt of the "Paris Commune" to establish a dictatorship of the proletariat, the organization of a socialist state (as well as industrial corporations) should follow the principle that the "masses" are the "masters" and officials and administrators are their "servants" working under their constant supervision and being paid like skilled workmen.⁶⁹ There is no question that this definition of the ruler and the ruled is distinct from that of the Confucian school. The scenario of a "new society" erected on the socialist principle of organization resembles, however, the Confucian vision of "government by virtuous men," which has swayed for more than two thousand years the Chinese public perception and expectations of good regimes and officials.

The Confucian theory of public service rests first and foremost on the acceptance of the notion that there should be "no tension between ruler and ruled, no differences of interest between government and governed."⁷⁰ This harmony is believed reachable only through "righteousness and humanity," or through government officials leading the people with virtue and taking upon themselves the obligation of looking after their welfare.⁷¹ While committed to restraining the masses with ritual, or the feudalist patriarchal rules, Confucianism maintains that virtuous administrators should always put the people first because "the people are the foundation of the state, and when the foundation is firm, the state is stable."⁷² Putting the people first "consists in providing enough food to eat" and ensuring that

they live and work in peace and contentment.⁷³ It requires officials to be "intent upon the task, not bent upon the pay" and to "take as much trouble to discover what is right as lesser men take to discover what will pay."⁷⁴ Moreover, in assuming their responsibilities and in motivating the masses, virtuous officials should not rely on "constraints and punishments."⁷⁵ Instead, they should seek to win the confidence and support of the people by setting "the example of diligent toil" and by exhibiting the qualities of being "addicted to modesty and self-control," by loving "justice and duty," and by having "sincerity and good faith." If a government is made up of virtuous officials whom their "relations laud as filial" and their "fellow-villagers esteem as fraternal," its people, promises Confucius, "will not permit themselves to be irreverent" or "venture to be unruly."⁷⁶

It does not require much scrutiny to notice the resemblance between the Confucian virtues of public officials and Marxian "servants of the people," irrespective of their different underlying principles. This resemblance indicates that enterprise workers' attachment to socialist organizational principles carries within it something of an ineradicable past. That they perceive managers as officials/servants rather than management and ascribe greater importance to their moral character than their capacity for organizing production "scientifically" and effectuating good returns is deeply situated in the traditional conception of "government by virtuous men." Although rationalized and radicalized by the Marxian "master/servant" discourse, workers' expectations that managers should work selflessly for the public interest, take the lead in practicing what they instruct workers to do, share the weal's and woes of the masses, confer benefits and

happiness on workers, and look after their career advancement and family life,⁷⁷ extend little beyond what Confucius preached that "virtuous" officials should do thousands of years ago.

Workers' entrenched but politicized notions of good management, on the one hand, make the Communist leadership's effort to perpetuate the socialist legacy in post-Mao China feasible. However, these notions impede the reform ambition to improve the economic performance of state firms by incorporating "scientific management" and market rules in administration. To most workers, enterprise reforms, whose procedures focus on motivating so as to increase productivity, and maximizing profits through managers' authority and income disparity, do not only threaten to consolidate power into the hands of management and peripheralize workers' status in the social hierarchy. More importantly, they put at stake their economic security and the equitable welfare net proposed by Confucius but provided by the socialist system. It is thus only natural that workers have responded negatively to reform programs and used the "master/servant" discourse to pressure both the government and management to back off from their reform ambitions. Unable to justify their intended substantial variations within standard socialist ways of operating state firms, and unwilling to risk social and political instability, government agencies and enterprise management have not seriously enforced their radical reform proposals on the shop floor. Enterprise management and labor organizational values in the state sector thus remain basically untouched by the reforms.

SUMMATION

The rallying cry for enterprise reforms has been ringing in China for years. Yet the conventional socialist paradigm of management has changed very little in state firms. Workers' strong resentment is a formidable barrier to the attempt to make the systems of employment, labor allocation, and wage and welfare provision conform with market rules in order to increase industrial efficiency and productivity. In the depth of their opposition to the market-driven transformation lies their adherence to socialism. Their close bond to the established political order challenges the assertion of many in the West as well as in China that market forces have already caused China's socialism to ebb and that the official ideological platform is no longer tied to Chinese social practice.

A catch phrase in the current enterprise reform is "institutional change" in labor management. Yet, their focus on legislation and administrative mandates shows that Chinese reform champions do not seem to have fully recognized that social institutions, as Anthony Giddens defines them, are routinized practices "which are enduring and...are widespread among the members of a community or society."⁷⁸ In other words, socialist institutions in China's industrial labor management are systemic activities and articulations enacted daily by workers and staff. That the routinized socialist practices can persist through the most radical reforms in Chinese Communist history is therefore not because of the lack of government directives and disciplinary measures. It is, rather, because they are continually carried out and reproduced by workers in their resistance to change in the institutionalized routines and also by management and government agencies when they caved in to pressure from workers.

Workers' engagement in socialist practices on the shop floor, to invoke Giddens, is not "the product of forces which [they] can never control nor comprehend."⁷⁹ Neither are workers "structural or cultural 'dupes,'" following conventions blindly.⁸⁰ They are, instead, "'knowledgeable' about the characteristics of the social systems they produce and reproduce in their action" and have the practical and reflexive, discursive consciousness of "the rules and the tactics whereby daily social life is constituted and reconstituted across time and space."⁸¹ Their knowledge of socialism grows out of their direct experience as its political and economic beneficiaries. This awareness of their institutional roles as the "masters" of both the country and the enterprise and their culturally constructed predispositions dictates not only their daily performances but also their long-term commitments.

Socialist institutions are, however, not random but ordered in the sense that workers do draw upon structures (rules) in Giddens's terms, in the process of social interaction on the shop floor. Yet the rules are themselves institutionalized features of Chinese socialist society, which have resulted from but have also mediated its set of pervasive and enduring social practices.⁸² Workers' familiarity with institutionalized modes of socialist conduct have reinforced their participation in the socialist practices of management. Their continual recognition and repetition of the modes, in turn, have helped reconstruct socialist rules and regenerated the contextual relevance of socialism and their awareness of its existence.⁸³ Yet, this does not mean that there is no possibility for social transformation. On the contrary, while routinized socialist practices cultivate among workers a sense of

security and hence attachment, continuities of a social conduct, according to Giddens, "always accompany and facilitate the generation of discontinuities in social Praxis."⁸⁴ To materialize the possibility of transforming social practices, however, its initiators "must first master the preconceptions contained in the commonsense, traditional knowledge" from which the social practices are drawn, before any reinterpretation and transformation of socialist institutions in technical terms can be attempted.⁸⁵

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CHAPTER 8

CONCLUSION: THE MARKET AND SOCIALISM?

During the past decade, as the countries of Eastern Europe and the former Soviet Union reformed their economies with a "big bang" (a rapid liberalization of prices and privatization of enterprises), the dominant opinion among Western economists favored the spasmodic approach. China was criticized for its "partial reforms," or "sequenced reforms," or "evolutionary reforms." These were perceived as being useless because "they will be negated by the remnants of the planning system."¹ Yet the striking contrast between the results of the two different approaches since then seems to have silenced this argument. Ezra Vogel made a favorable comparison between China's reforms and what occurred in Eastern Europe, noting:

communism fell with a bang....But the economies of these countries stagnated and their reentry into the world economy proceeded at a snail's pace. In China, the Communist Party did not fall at all; the economy has been remade not with a "big bang" but step by step. But its economy grew like wildfire and it has been reintegrated into the world economy with a bang.²

The "staggering" economic "success" of the Chinese-style reforms, however, has been created mainly by the booming non-state sector operating in the emerging market. State enterprises, with at least one foot still firmly in the socialist tradition, cannot claim much credit for the glory.³ Despite the government's giveaways of benefits and authority, many enterprises are reported as being unable to extricate themselves from the embarrassment of long-standing deficits, or being unable to grow at rates deemed desirable in real economic terms because the growth that

does occur consists of rapid expansion of capacity rather than increased efficiency.⁴

Distinct as their performances may appear, both the state and non-state sectors have failed to bring the economic reform closer to its objective: retaining the socialist order AND introducing the market to improve economic efficiency. While the dynamism of the non-state sector proves its success by the second measure, its basically market-ruled operation reveals few socialist traces. The intactness of state enterprises, on the other hand, has helped sustain the dominance of public ownership and prevent the political catastrophes of Eastern Europe, but to the exclusion of their increased productive efficiency. Comparing the two sectors, however, the ineffectiveness of state firms in utilizing market rules within the context of prevalent socialist institutions has had a greater impact on the entire economic reform.

State enterprises constitute the only economic entity in China that embodies and supports the socialist mode of production. This means that economic reforms aimed at introducing market forces into the socialist system need first make breakthroughs in their operation. Yet enterprise reformers have so far failed to find a way to conceptualize and execute a reconciliation between entrenched political institutions and capitalist business rules. Unable to combine the inherently related but mutually exclusive features of socialism and capitalism, enterprise reforms have, as a result, failed to specify operational strategies for state firms to bring the market into the center stage of their socialist organization. The ideological and procedural entanglement of enterprise reforms has stalled the transformation of state firms and,

in turn, frustrated the evolution of the market as a whole. The "socialist market economy" consequently remains nothing but an illusion.

The impasse of enterprise reforms has, on the other hand, left state firms continually encumbered "by burdens imposed by government—plan quotas, low plan prices, labor quotas, mandated welfare expenditures, adjustment taxes, or profit contracts."⁵ This has further blunted firms' competitive edge and caused them to fall further and further behind their non-state counterparts in economic growth. Watching non-state sectors rapidly prosper, enterprise managers are naturally tempted by market sales. Confusion arising from the reforms has also provided many with the opportunity to take advantage of their authority and trade off socialist principles and ethics for quick wealth. Given the foreseeable political ramifications of weakening and shrinking state enterprises in a socialist system, many people in and outside China are speculating on the reform drive and orientation in the post-Deng era. Whatever predictions they may come up with, one thing seems obvious: the "socialist market," as it stands now, neither maintains the integrity and potency of socialism nor is conducive to the establishment of a market economy in its true sense. Thus the leadership and populace may soon be forced to decide whether to stick to the formula and seriously address its intrinsic contradictions, to choose between the two components, or to find a third path for reform and development.

ECONOMIC REFORMS AND POLITICAL MOTIVATIONS

Launched and conducted by the Communist leadership and the Party/state bureaucratic institutions, Chinese enterprise reforms are never meant to simply find

the best possible economic policy choices. A more important agenda of post-Mao leaders for improving economic performance and living standards through reforms is to restore the popularity and to strengthen the legitimacy of the socialist order and Communist rule, both of which were severely eroded during the Cultural Revolution.

While admitting that the Communist Party was responsible for the inert economic development in the pre-reform era, however, current Chinese leaders, conservative and reformist, conceive their predecessors' "mistakes" essentially as problems of low technical proficiency and administrative efficiency. Designed under this conception, reform programs do not examine the political status of the Communist Party in society or question its ideological commitment, but concentrate on improving the efficiency of the polity, techniques of management, and technology of production.⁶

To increase administrative and production efficiency, the Communist regime has voluntarily transferred a large measure of decision-making power to professionals through the responsibility system and resorted to concepts and apparatus from free market economies. To circumvent ideological disputes over the employment of profit incentives and pursuit of market returns, Chinese leaders have moreover appropriated a separate discourse which represents economic policies and actions as politically innocent events to be directed only by "inviolable" economic "laws" and "rational" rules and regulations of the market. Yet this effort to neutralize the discussion of economy so as to provide opportunities for the market to function has proved ineffective. A major problem is that, because it is contrived in the socialist context and designated for the service of more mature socialism

(however distant in the future it may be) the economic discourse remains subjugated by the dominant discourse of socialism. Not allowed or equipped to impose an alternative order, its striving to lend significance to productivity, efficiency, profits, professional expertise, administrative skills, labor discipline, and income disparity is delimited and tempered by many socialist concepts and practices that which have become institutionalized through the revolution and ensuing political and economic movements. With its socialist accent, the economic discourse moreover reinforces the authority of the socialist discourse to the extent that it participates in the same discursive practices and helps reinforce and reproduce the public's knowledge of socialist visions and norms, which are at variance with market rules.

Political limitations to market reforms are especially manifest in state enterprises. For higher industrial productivity, post-Mao leaders have openly advocated the introduction of capitalist market mechanisms into the administration and management of state firms. To avoid political controversy, they have rationalized their choice as being dictated by historical "laws" that socialism presupposes capitalism because only modern capitalism produces its essential material precondition, large-scale industry. According to the "laws," China is now only at the "primary stage" of socialism, characterized by backward economic conditions, and should therefore seek assistance from capitalism. By making the adoption of market procedures a requirement of historical "laws" which should be obeyed and not questioned, Chinese leaders obviously expect to be able to conveniently sanction any economically efficacious means, capitalist or otherwise.⁷ Yet as professed Communists, they cannot possibly allow the market to take full

control of state enterprises, the last tangible signifiers and material support of China's socialism, and reduce their own political belief and leadership to total irrelevancy. They need to sustain, and ideally gradually expand, the socialist component of the economy. That their "objective" historical "laws" are defined along the Marxist vision of the history of human society and that they have assigned China to the "primary stage" of socialism rather than any stage of capitalism also reaffirm the socialist values and commitments of China's economic development.

Socialism, however, is not merely an abstract ideological entity in China. It constitutes a multiplicity of practices and discourses, especially in the areas of ownership, distribution, and organization of labor. To maintain the socialist nature of the Chinese economy, post-Mao leaders must stand firm on keeping the predominant position of state ownership. Thus although they have promised to gradually substitute the market for planning and force state firms to compete for their own survival, they have not stopped, nor shown indications that they will stop, bolstering up enterprises with allocations and subsidies. According to official data, almost all government's investment spending during the reform years has been devoted to the state industrial sector, even though its profit rate has registered a rapid decrease (see Table 8.1) and money-losing firms reached 49% of its total by 1994.⁸

Table 8.1

State Investment in Capital Construction, Output Value-Profit Ratio and Asset-Debt Ratio of State-Owned Enterprises

Year	Total State Appropriation (Million yuan)	Investment in Capital Construction by State Enterprises (Million Yuan)	Output Value— Profit Ratio (%)	Asset-Debt Ratio (%)
1978		38921	16.0	
1979		39692		26.4
1980		30011	15.6	
1981		22262		
1982		23248	14.4	31.0
1983		29597		
1984		35985		
1985	40780	38111	12.1	44.9
1986		41739	10.2	
1987		43852	9.8	52.3
1988		38166	8.9	52.3
1989		32333	6.2	53.6
1990	38765	36359	3.1	57.1
1991	37295	34845	2.8	59.0
1992	33420	30787	2.6	60.0
1993	46387	43176		68.2
1994				75.1

Sources: State Appropriation and Investment in Capital Construction are from State Statistical Bureau of the People's Republic of China, *Statistical Yearbook of China*, 1993 (Beijing, China), pps 143 and 149. Output Value-Profit Ratio and Asset-Debt Ratio are from: Cheng Xiaonong, "Transition Versus Stability: China's Dilemma," *Modern China Studies*, No. 1 and 2, 1995, pps 95 and 97.

In addition to reaffirming state ownership, China's primarily socialist economy also requires that reform proposals do not demolish workers' eminent position in the structure of social authority. This also necessitates that the Communist Party, the professed representative of the working class, remains in control over the economic sector so as to see to it that workers' rights and interests are honored and steadily amplified. Thus, eager as they may appear to develop new stimuli for higher productivity through management and labor reforms, Chinese

Table 8.2

Total Wage Bill of Staff and Workers, and Indexes

Year	Total Wage Bill (Billion Yuan)				1978 = 100			Preceding Year = 100			
	Total	State-Owned Units	Urban & Collective Owned Units	Other Ownership Units	Total	State-Owned Units	Urban & Collective Owned Units	Total	State-Owned Units	Urban & Collective Owned Units	Other Ownership Units
1978	56.89	46.87	10.02					110.5	110.1	112.5	
1980	77.24	62.79	14.45		135.8	134.0	144.2	119.4	118.6	123.3	
1983	93.46	74.81	18.65		164.3	159.6	186.1	106.0	105.5	107.7	
1984	113.34	87.58	25.40		199.2	186.9	253.5	121.3	117.1	136.2	
1985	138.30	106.48	31.23	0.59	243.1	227.2	311.7	122.0	121.6	123.0	164.1
1986	165.97	128.85	36.28	0.84	191.7	274.9	362.1	120.0	121.0	116.2	142.9
1987	188.11	145.93	40.91	1.26	330.7	311.4	408.3	113.3	113.3	112.8	149.7
1988	231.62	180.71	48.76	2.15	407.1	385.6	486.6	123.1	123.8	119.2	170.1
1989	261.85	205.02	53.44	3.39	460.3	437.4	533.3	113.1	113.5	109.6	157.7
1990	295.11	232.41	58.10	4.60	518.7	495.9	579.8	112.7	113.4	108.7	135.8
1991	332.29	259.49	65.86	7.04	584.5	553.6	657.3	112.6	111.7	113.4	153.1
1992	393.92	309.04	74.32	10.56	692.4	659.4	741.7	118.5	119.1	112.8	149.9
1993	491.62	381.27	84.99	25.36	764.2	713.5	748.2	124.8	123.4	114.4	240.2

Source: State Statistical Bureau of the People's Republic of China, *Statistical Yearbook 1993*, (Beijing, China 1994), p. 103.

leaders have never attempted to redefine the political status of workers as "masters" of the country and the enterprise, or treat labor as a commodity. As should be apparent, keeping this title of workers intact proletarianizes managers' supposed authority in production and damps their enthusiasm to challenge the "iron rice bowl." It furthermore justifies workers' claims for employment rights, job security, and equitable shares of income and welfare provisions. All this counteracts the reform attempt to introduce profit-based "scientific management" into state enterprises. Yet continuing to address enterprise reforms as an endeavor to find a right managerial technique, post-Mao leaders do not seem willing to take any radical measures to mitigate the discrepancy between reform intentions and the social and institutional status quo. Whether or not because they still pride

themselves on being Marxian socialists and hence remain true to the belief that the road to prosperity should be accompanied by equitable distribution of wealth,⁹ Chinese leaders have, in fact, made sure that the income growth of workers in state firms keep pace with that of the non-state sector, despite their reported inefficiency and up-scaling deficits (see Table 8.2).

A more important motivation for post-Mao leaders to honor the "social contract" with industrial workers—the authorities widely and steadily providing welfare for popular support in return—at the expense of market reforms is, however, as Cheng Xiaonong puts it, their anxiety over social stability which has a direct bearing upon their political power.¹⁰ In other words, the current leadership does not seriously enforce programs for management and labor reforms because it does not want to risk the possibility for radical reform procedures endangering the livelihood of the urban populace and causing social discontent and disruption. Yet from the perspective of most Chinese industrial workers, their social prestige in the country and on the shop floor and their financial stability are not bargaining chips in political deals. For them, they are expressions and endowments of socialism and have come as a package with Communist rule and the socialist system. This folk conception of socialism was neither developed nor continues to prevail simply because of Communist "brainwashing" or the "propensity" of the average Chinese for an easy life, as reform advocates often complain. It emerged from a lived reality of many in the Mao era, which "opened up a new world of grass-roots political activity, experience, and understanding,"¹¹ and is deeply embedded in a culture influenced by a Confucian ideal that the state is responsible for ensuring an

Table 8.3

Number of Urban Employees (Millions)

Year	Total	State-Owned	Collective-Owned	Joint-Owned	Foreign Investment	Hong Kona, Macao & Taiwan Investment	Other Ownership	Private Enterprises	Individual
1978	95.14	74.51	20.48						0.15
1980	105.25	80.19	24.25						0.81
1983	117.46	87.71	27.44						2.31
1984	112.29	86.37	32.16	0.37					3.39
1985	128.08	89.90	33.24	0.38	0.06				4.50
1986	132.93	93.33	34.21	0.43	0.12	0.01			4.83
1987	137.83	95.54	34.88	0.50	0.20	0.01	0.01		5.69
1988	142.67	99.84	35.27	0.63	0.29	0.02	0.03		6.59
1989	143.90	101.88	35.02	0.82	0.43	0.04	0.03		6.48
1990	147.30	103.46	35.49	0.96	0.62	0.04	0.02	0.57	6.14
1991	152.68	106.64	36.28	0.49	0.96	0.69	0.02	0.68	6.92
1992	156.30	108.89	36.21	0.56	1.38	0.83	0.05	0.98	7.40
1993	159.64	109.20	33.93	0.66	1.33	1.55	0.18	1.86	9.30

Source: State Statistical Bureau of the People's Republic of China, *Statistical Yearbook 1993*, (Beijing, China 1994), p. 65

equitable and society that provides for the common welfare.¹² That this popular notion of socialism sustains the appeal of the socialist vision to Chinese may be partly illustrated by the fact that the overwhelming majority of the urban work force rejects the pecuniary temptations of private business and sticks to the state sector (see Table 8.3).¹³ Even many employed by the private enterprises have expressed the desire to someday become a "real" worker in a state firm.¹⁴

The continual popular preference for the socialist mode of production over a market system among enterprise workers is also shown by their reactions to political developments in China that are informed by economic reforms. The most illustrative example seems to lie in their performances during the Tiananmen incident in the summer of 1989. Many Chinese dissidents had projected that the Communist

Party and its ideology had long lost their legitimacy among the average Chinese and hence a spark of resistance would start a popular uprising.¹⁵ Workers, however, did not seize the opportunity of the political crisis to stage a mass protest against the "mandate" power of the Communist leadership and the socialist order.¹⁶ (Interestingly, those thrown out of office were the most liberal proponents of the market economy and privatization, such as Zhao Ziyang, the then secretary general of the Party Central Committee.) Workers' direct involvement in the student demonstration was very limited, even though they were subject to little restraint from management.¹⁷ While many of them might have sympathized with student demonstrators, their criticisms of the government did not echo the students' demands for faster economic and political reforms, but were articulations of discontent with the impact of the market on their status and welfare. Very much concerned with social stability, the government and enterprise management has had to acknowledge workers' passive reactions and has gone easy on the implementation of the market-driven responsibility system. Yet it is also these widespread qualms about the shift to a market economy that make post-Mao leaders' persistence on the socialist system and the Communist leadership justifiable and possible.

PROSPECTS OF ENTERPRISE REFORMS

William Overholt accurately pinpoints the essence of reform when he says that it is a domestic political process.¹⁸ The Chinese reform strategy emphasizes market forces but does not permit them to affect major socialist institutions or the Communist polity. In state enterprises, this has resulted in the "political logic" of

the reform containing the "economic logic."¹⁹ To break the political deadlock over the market necessitates a conceptual framework for integrating socialism and capitalism. Chinese leaders, however, are likely to continue to shy away from the challenge of reconstructing interpretations of the two distinct political and economic visions. The main reason is that they are unable to find references in either Marxist orthodoxy or Mao's elaborations and any originality or creativity on this sensitive and controversial issue may incur disgrace and deposition. Yet since Marx defines socialism as a dialectical product of capitalism, Chinese leaders will likely proceed with the market element in the economy, in the hope that capitalist means will help them develop productive forces to the level required by "real" socialism. They will, however, continue to strictly monitor reforms in urban areas and exercise protectionism internationally to avoid massive unemployment, declining living standards, and social unrest. Also, since managerial disciplines for semi-socialist and semi-market-oriented enterprises are still absent, state agencies will remain the only available substitute.

Confusion arising from this strategy of introducing the market and retaining socialism will remain a frustration for some managers but provide a loophole for others to engage in personal profiteering. With the corruption of "public servants" worsening and the gap between rich and poor widening, "masters," or workers, may lose hope in the Communist leadership, whose vigilance in economic matters has always been their insurance against the reappearance of exploitation and polarization.²⁰ They may then rebel and "the Maoist period may present itself as a source of inspiration"²¹ and alternative. (In fact, the phrase "if the second Cultural

Revolution came..." has already appeared in Beijing (as a common curse against corruption). Those in the Communist Party who believe that reforms, with all their problems, have already weakened the financial and economic strength of the state to a dangerous degree,²² may rely on this social basis for socialism to curtail the market. A different scenario, on the other hand, may also be possible in which Chinese leaders and their aides continue to delude themselves that socialist institutions and capitalist mechanisms will solve their differences on their own and follow the "objective" historical "laws" to "genuine" socialism. The possible result of the gambling should be self-explanatory. Robert Michels, a well-known French political scientist, prophesied early this century that "socialists might conquer, but not socialism, which would perish in the moment of its adherents' triumph."²³ To break the spell, Chinese leaders and the populace may have to re-examine their 17 years of reform experience (1978-1995) and be honest with themselves and question: Is it possible for Marxian socialism to go along with free enterprise? Will China's "socialist market" economy really serve the interest of socialism? To date, Chinese leaders have avoided Communist Europe's fate. How long this can continue is anybody's guess.

ENDNOTES

- ¹ William H. Overholt, The Rise of China: How Economic Reform Is Creating a New Superpower, (New York: W. W. Norton & Company, 1993), pp. 36-41; John McMillan and Barry Naughton, "How to Reform a Planned Economy: Lessons from China," Oxford Review of Economic Policy, Vol. 8, No. 1., pp. 130-132.
- ² Ezra F. Vogel, "Introduction" to William H. Overholt's The Rise of China: How Economic Reform is Creating a New Superpower, pp. 19-20.
- ³ Susan L. Shirk, The Political Logic of Economic Reform in China, (Berkeley: University of California Press, 1993), pp. 129 and 145.
- ⁴ Ibid., p. 17.
- ⁵ Ibid., p. 343.
- ⁶ Arif Dirlik, "Revolutionary Hegemony and the Language of Revolution: Chinese Socialism Between Present and Future," in Arif Dirlik and Maurice Meisner (eds., 1989), p. 30.
- ⁷ Maurice Meisner, "The Deradicalization of Chinese Socialism," in Arif Dirlik and Maurice Meisner (eds., 1989), p. 344.
- ⁸ Cheng Xiaonong, "Transition vs. Stability: China's Dilemma," Modern China Studies, No. 1 & 2, 1995, pp. 95-97.
- ⁹ Ann Anagnost, "Prosperity and Counterprosperity: The Moral Discourse on Wealth in Post-Mao China," in Arif Dirlik and Maurice Meisner, eds., (1989), p. 215.
- ¹⁰ Cheng Xiaonong, op. cit., pp. 89-94.
- ¹¹ Marc Blecher, "Structural Change and the Political Articulation of Social Interest in Revolutionary and Socialist China," in Arif Dirlik and Maurice Meisner, eds. Marxism and the Chinese Experience, (New York: Armonk, 1989), p. 203.
- ¹² Lisa Rofel, "Hegemony and Productivity: Workers in Post-Mao China," in Arif Dirlik and Maurice Meisner, eds., op. cit., p. 231.
- ¹³ Susan Young discusses people's reservation in working for private business or as private entrepreneurs in "Wealth But Not Security: Attitudes Towards Private Business in the 1980s," in Andrew Watson (ed.), Economic Reform and social Change in China, (New York: Routledge, 1992).
- ¹⁴ This information was revealed by Dr. Deborah Davis from Yale University in a seminar sponsored by Center for Chinese Studies, University of Hawaii, in the

summer of 1995. Dr. Davis has conducted a series of substantial surveys in Chinese private enterprises, and this information is one of her findings.

¹⁵ See for example, Li Lu, Moving the Mountain: My Life in China from the Cultural Revolution to Tiananmen Square, (London: MacMillan, 1990), pp. 8–9; and Fang Lizhi, "Keeping the Faith," in The New York Review of Books, December 21, 1989, pp. 43–44.

¹⁶ Feng Shengbao, "Democracy Movement and a Political Breakthrough in China," The Chinese Intellectual, Summer, 1991, p. 48.

¹⁷ Between mid-May and early July, 1989, this author visited 14 industrial enterprises of different sizes in Beijing and found that none of them stopped normal production because of the students demonstration. For further information on workers' responses to the Tiananmen incident, see Andrew G. Walder, "Workers and the State: The Reform Era and the Political Crisis of 1989," The China Quarterly, No. 127, September 1, 1991, pp. 486–491.

¹⁸ William H. Overholt, The Rise of China: How Economic Reform Is Creating a New Superpower, (New York: W. W. Norton & Company, 1993), p. 36.

¹⁹ Susan Shirk, op. cit., pp. 17, 335, and 336.

²⁰ Ann Anagnost, op. cit., p. 229.

²¹ Marc Blecher, op. cit., p. 207.

²² Wang Shaoguang, "The Bottom-Line of Decentralization in Reform," Modern China Studies, No. 1 & 2, 1995, pp. 39–58.

²³ Quoted by Maurice Meisner in Arif Dirlik and Maurice Meisner (eds.), Marxism and the Chinese Experience, p. 341.

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