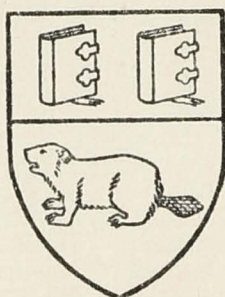


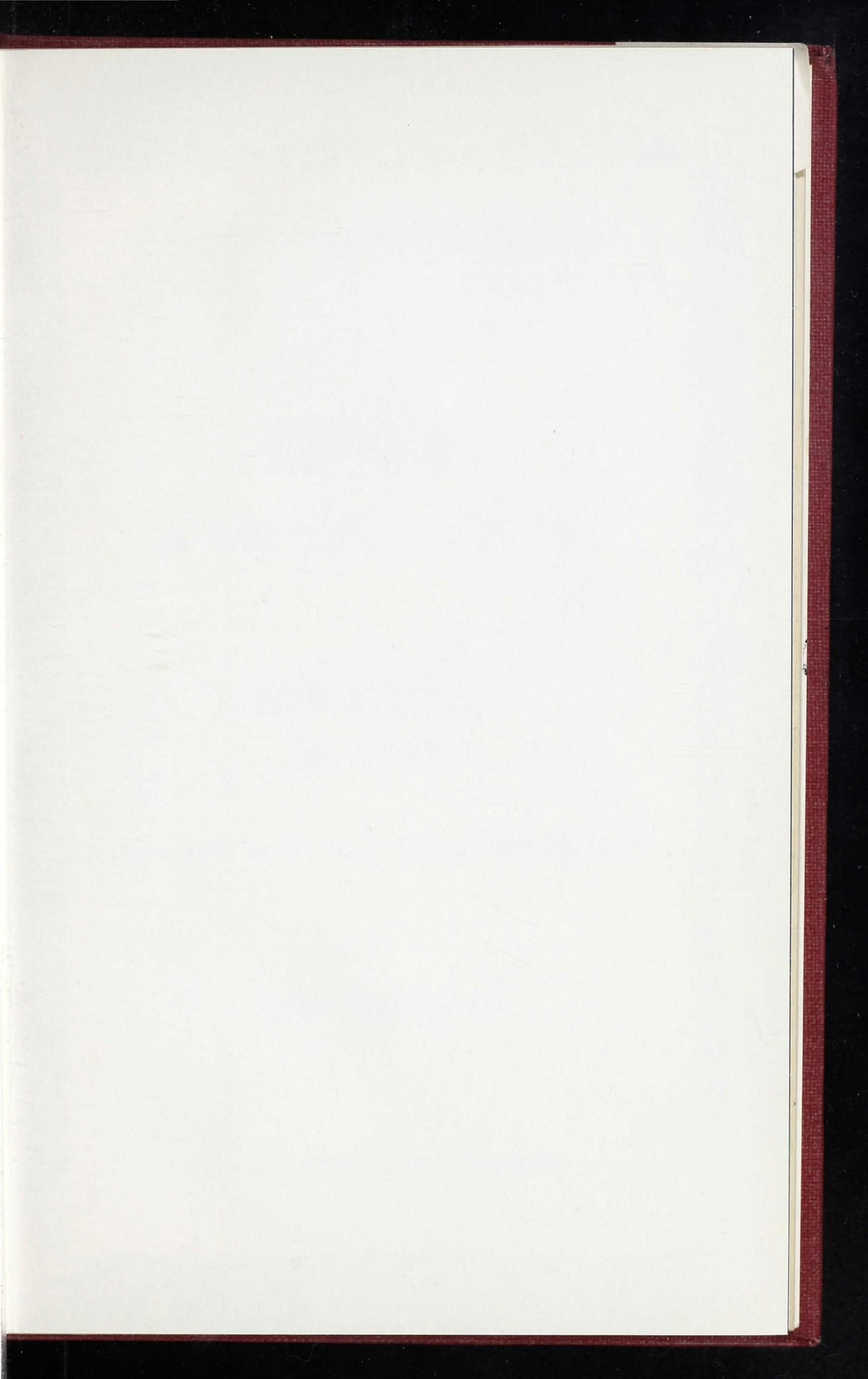
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CHINA:
AN ECONOMIC PERSPECTIVE

JOAN ROBINSON
SOL ADLER

Foreword by Rt. Hon. Harold Wilson, M.P.

FABIAN TRACT NO. 314

ONE SHILLING AND SIXPENCE

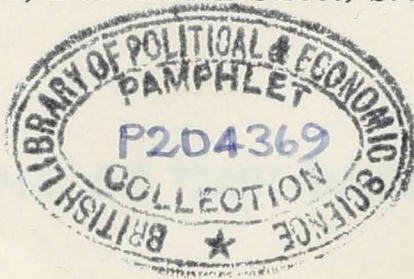
JOAN ROBINSON is Reader in Economics at Cambridge.
She first visited China in 1953.

SOL ADLER represented the United States Treasury in
China from 1941 to 1947 and is author of *The Chinese
Economy*.

Both authors revisited China in 1957.

FABIAN TRACT No. 314

THE FABIAN SOCIETY,
11, Dartmouth Street, S.W.1.



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September, 1958.

FOREWORD

THIS Fabian study by Joan Robinson and Sol Adler brings before the reader the clearest and most succinct compilation of facts and value judgments about China's economic development which is so far available. Unlike so many studies produced across the Atlantic, it is not written to present a slanted view of what is happening, or to tailor facts to fit ideological theories; it is the product of authoritative analysis and clear-sighted observation. It makes full use of Government sources of information, but the evidence is carefully weighed and sifted before use, to remove any propaganda content. The statistics and analysis, therefore, of national income, population, and industrial and agricultural production, are as reliable as any that can be obtained.



Last spring I was privileged to visit China, though for a period much shorter than the successive visits of the authors of this pamphlet. What I saw, and what I heard from Government leaders, are fully borne out by this more detailed study. Of all the impressions I formed during my visit, the clearest and most undeniable was of the formidable rate of economic development China has set herself. She has laid down as her target, equality with Britain by 1972—not, as Chou en-Lai explained, equality in output *per capita*, but equality in the total production of steel, coal, heavy engineering equipment, essential chemicals and all the other basic products which underlie a fully-developed economic system in the modern world. We should be under no illusions that this goal will be achieved. Moreover, as Chou en-Lai hastened to warn me, they will not be deflected from their task by any policies of trade boycott or embargo pursued by the West: 'this may delay us a little—but only a little.'

This programme, as the authors remind us, is unparalleled in world economic history. Britain's industrial revolution has been spread over two centuries, the massive revolution undertaken by the Soviet Union over 40 years: China has set herself 15 years to carry through an even more formidable task of industrialisation.



There are four lessons for Britain which I think must be drawn from this pamphlet.

First, we must realise that an industrialised nation of nearly 700 million people, accustomed as they are to a relatively low standard of life, can present us with the most formidable challenge in many of our traditional markets. We have seen the beginning, in the controls the Government has found it necessary to place on Chinese textile imports. If, therefore, we

have nothing to look forward to except a dwindling share of an insufficiently expanding world market, we face the certainty of economic decline and chronic unemployment in a measurably short period from now.

Secondly, and more hopefully, we must realise that while we cannot hope to win an economic war with an industrialised nation of 700 million people, an economic policy which treats the Chinese as 700 million customers can offer the most exciting prospects. Instead of ineffective attempts to strangle China's economic development by so-called strategic restrictions, we should come to terms with it and find new and expanding markets by selling her a substantial part of the capital goods required.

Thirdly—and this means very frank speaking to our American allies—we must recognise that political and economic policies based on a pariah status for China, so far from weakening China, only succeed in driving her into still greater political and economic dependence on the Soviet Union, in forging a still tighter military alliance between the two major Communist countries, and in discrediting the Western cause in the eyes of uncommitted countries in Asia and elsewhere. Non-recognition of China in the United Nations has driven her into an unwelcome over-reliance on Russia as her spokesman: the economic boycott has led to a similar dependence in economic affairs. There is neither political nor economic realism in policies which have led to the erection in China, by the end of last year, of 61 factories built and equipped by Soviet technicians, and a further 33 provided by other countries in the Soviet bloc.

Finally, in this era of competitive co-existence, the future of vast territories in Asia and elsewhere may well depend on the success of the West in taking up the economic challenge which China presents. Not only the Cold War, but the struggle for the entire future of democratic civilisation as we know it, may be lost without a shot being fired, unless the West—and above all India—can prove that rapid economic development is possible by democratic means, and show that we are prepared to play a full part in the economic development of backward peoples.

HAROLD WILSON.

CHINA: AN ECONOMIC PERSPECTIVE

JOAN ROBINSON & SOL ADLER

1. THE PACE OF DEVELOPMENT

VISITORS returning to China after the lapse of a few years must expect to find many changes. But these changes are far more sweeping than could have been imagined. The very face of the countryside has been transformed, as is immediately apparent as one drives into a city from its airport or travels through the countryside by train. In the past the typical rural scene was that of the individual peasant working his tiny plots with at most the assistance of one or two members of his immediate family, and parcellisation was the general rule. Now one sees production teams or brigades working together in fields which are quite large by traditional Chinese standards, and the agricultural producers' co-operatives have finally put an end to the minute fragmentation of the land.

The urban changes are no doubt less surprising, since factories are pretty much alike the world over, and one takes it for granted that cities keep on growing and bursting at the seams in a rapidly industrialising country. Yet it is hard not to be impressed by the sight of the magnificent bridge over the Yangtze at Wuhan, to which the last finishing touches were being put when we were in Wuhan at the end of September, 1957.

Sources of Information

A brief word on our sources of information. We combined our talks with government officials in Peking with visits to as many factories and agricultural producers' co-operatives in as many localities as our time permitted, so that our field trips provided some cross-check on what was learned in Peking. It should be emphasised that all figures cited are from official sources, as they were supplied either by central or local government officials or by factory and co-operative staffs. At the same time, a detailed examination of the basic published statistics shows that on the whole they are reasonably consistent internally. It must be remembered that the first modern enumerative census of China was taken only in 1953, and government statisticians are the first to admit that their figures on national income and still more so on the labour force and the number of handicraft workers are still rough and ready and in the process of refinement. The Communist

concepts of national income and accumulation are different from the Western definitions of gross national product and gross investment. Not only are the former both net of depreciation,¹ but national income covers only material products plus the services *directly* engaged in their production.

The current predilection for gross output, a concept which is especially vulnerable when both the volume and composition of production are changing so swiftly, is perhaps to be explained not only by the national tendency to borrow from Russia but also by the acute shortage of trained statisticians, since while it is a fairly simple matter to keep books in terms of gross value, it is much more difficult to compute net value added. On the other hand, when we asked the head of the Planning Section of the Shenyang No. 1 Machine Building factory, the largest of its kind in China, how they handled the index number problem in calculating *per capita* labour productivity in the case of new products, he replied that they built a 'bridge' between the new products and the old products closest to them and turned the tables on us by asking how this problem was handled in Britain.

Chinese Statistics

We got the impression that the Chinese are conservative rather than otherwise in their compilation of statistics for economic planning (we are not concerned here to discuss the allegations about the propaganda use of statistics). Thus, while output during the First Five-Year Plan was valued in terms of 1952 constant prices, the base year for the Second Five-Year Plan valuation is to be 1957, a procedure which automatically reduces the index number spread, although from a propaganda point of view 1952 prices would unquestionably be better. Again, grain production data represent not the biological crop (on the stalk) but the crop in the barn after it has been dried in the sun.

In one respect at least Chinese statistical practice may be accused of undue conservatism. All the global agricultural data have so far been obtained by crude aggregation, a procedure which must entail an enormous and unnecessary amount of elementary paper work. It was interesting to learn that, as a result of Professor Mahalanobis' visit to China earlier in the year, the Ministry of Agriculture was trying out sampling techniques for measuring the crops in one region of Hopei, and that their use would be extended if the simultaneous cross-check between sampling and aggregation proved satisfactory. China is willing to learn from India as well as from Russia.

Detailed figures on output, the breakdown of costs, wages, etc., were available at all the factories inspected. As for the agricultural co-operatives, their directors spoke to us armed with notebooks as well as with the co-operative accounts, so that there was greater danger of being swamped by a mass of statistics than of having to lean too heavily on cursory

¹In fact, depreciation charges are not very high at this stage of economic development, the average depreciation period for machinery being about 30 years.

observations. In one case, that of a small minority co-operative near Changchun, there was a patent discrepancy in the figures we were given, and failure to get the discrepancy ironed out appeared to be due only to the problem of communication.

The regulation of the balance of the economy in a centrally planned country not only entails the drawing up of 'material balances,' which is the Communist equivalent and probable ancestor of input-output analysis, and the planning of the interrelations between the different sectors, *e.g.* between the State and other sectors and between agriculture and industry. It also entails drawing up a fiscal and credit plan so that there is a balance between income and expenditure, given the level of planned and market prices, and setting the ratio of accumulation to national income which, in turn, must be consistent with the material, fiscal and credit balances. Finally, it is essential to work out annual plans to fit in with the draft Five-Year Plan and desirable to adumbrate longer-term programmes, or 'perspective planning,' however rough and ready, for as much as twelve or fifteen years ahead.

Trend towards Decentralisation

In the earlier years there was a very high degree of centralisation in planning, both in the drafting of the global and specific targets and in the making of detailed decisions. With the accumulation of experience and the growth in the number of qualified administrators, managers and technicians, there is an increasing tendency towards decentralisation, with more recourse by Peking to the setting of reference targets, as distinct from exact quantitative targets, and to leaving as much as possible to regional and local initiative.

Division of National Income

The preliminary data on gross total output, national income and capital accumulation for the First Five-Year Plan (1953-57) have been published. The 1957 targets for gross total output and national income were 171,600 million yuan and 93,700 million yuan, or approximately £24,000 million and £14,250 million respectively at the official exchange rate of 6.859 yuan to the £. It must be remembered that (as an on-the-spot check of prices confirmed) the official exchange rate, in contrast with other Communist countries, significantly under-estimates the internal purchasing power of the currency.

NATIONAL INCOME AND GROSS TOTAL OUTPUT (Preliminary)

	1953-57 (total)	1957
(1) National income (thousand million yuan) ...	405.1	93.7
(2) Gross output (thousand million yuan) ...	732.6	171.6
(3) Ratio of (1) to (2) (per cent.) ...	55.3	54.25
(4) Breakdown of national income (per cent.)—		
Agriculture	50.5	49.2
Industry	24.5	26.9
Transport and Commerce	25.0	23.9

As is to be expected when production is becoming more roundabout, the ratio of national income to gross output is declining. Even in agriculture where, we were informed by Ministry of Agriculture officials, the element of grossness is much smaller than in industry, gross output must be deflated by 30 per cent. in order to arrive at net output.

As is also to be expected in an industrialising country, the proportion of national income originating in industry is increasing, and is now well over a quarter. But China is still predominantly agricultural and agriculture still accounts for almost half the national income. The 15 per cent. share of commerce is relatively large; this is partly a book-keeping matter, as a considerable part of the profit on consumer goods is realised in the process of distribution.

The planned annual ratio of accumulation to national income during the First Five-Year Plan was 21.6 per cent., with somewhat under 12 per cent. of the national income going into budgetary expenditures on fixed capital and nearly 10 per cent. going into working capital and accumulation by co-operatives, joint State and private enterprises, etc. Roughly 69 per cent. of accumulation went into net investment in fixed assets—China doubled her stock of fixed capital in the four years 1953-56—and the remainder into building up working capital.

The breakdown of the financial sources of accumulation is as follows: State enterprises, 79.5 per cent; co-operatives, 10 per cent; joint State and private enterprises, 3.4 per cent; the individual sector, 3.9 per cent; and personal savings, 3.1 per cent. The *real* as distinct from the financial share of agriculture in accumulation has been estimated at roughly 40 per cent.

The Second Five-Year Plan

When we were in Peking in the autumn of 1957, work was still continuing on drafting the control figures for the Second Five-Year Plan at the central level and on drafting targets at the ministerial, regional and local levels. The completion of the final draft of the Second Five-Year Plan demands a major decision on the rate of accumulation, a decision which had not yet been taken in 1957. In our talks with officials and economists in Peking, it was fairly clear that opinion was moving in favour of a somewhat lower rate of accumulation than had originally been envisaged in the *Preliminary Proposals for the Second Five-Year Plan* presented to the 8th Congress of the Communist Party of China in September, 1956. The reasons for this shift of opinion probably included the relaxation of international tensions, the Hungarian tragedy (whose repercussions nevertheless were smaller in China than in the rest of the Communist world), and the strong empirical bent of Chinese planners, who have so far, at any rate, successfully steered between the Scylla of too much accumulation with too slow an immediate improvement in living standards and the Charybdis of too little accumulation with too fast an immediate improvement in living standards. Perhaps as a result of the remarkable impetus generated at the

end of the 1957 and the beginning of 1958, opinion may again veer round in favour of a rate of accumulation nearer 25 than 20 per cent. for the Second Five-Year Plan as a whole.

In any case, the projected rate of accumulation is hardly likely to fall below one-fifth of the national income, which is a very high rate by any objective standards. Industrialisation and economic progress in agriculture on a scale and at a speed such as are being maintained in China are impossible without a high rate of accumulation. It is absolutely indispensable if the steep ascent from backwardness is ever to be completed, let alone accomplished in a reasonable span of time.

2. AGRICULTURAL CO-OPERATIVES

BY reason of their proximity to the big cities, the agricultural producers' co-operatives we saw tended to concentrate on the cultivation of vegetables and to derive a substantial part of their total income from subsidiary occupations such as pig breeding and dairy farming. Their average annual family income was over 500 yuan, whereas the national average for all co-operatives is somewhat over 300 yuan per peasant household, the lowest being a little over 200 yuan. These figures do not include incomes from individual subsidiary occupations or from cultivation of the small individual plots owned by all member families. Family plots are larger than one had expected to find, indeed they are big enough to provide a family with all its vegetables and sometimes a part of its cereals too. But then the intensity of Chinese cultivation is a never-ending source of surprise. These co-operatives were also somewhat larger than the national average, which is about 158 families per co-operative. Incidentally, with over 97 per cent. of the rural population in co-operatives, the trend was for the size of the co-operatives to decrease rather than the reverse, and co-operatives of over 500 families were tending to be split into smaller units. It has been found that the lack of previous managerial experience imposed fairly definite limits on economies of scale in the earlier stages and that larger co-operatives had few inherent advantages over the smaller in the absence of mechanisation.

Working Conditions

Membership of co-operatives includes all village people working on the land so that each family generally provides two or more members, not necessarily working full-time. Members work not by themselves but in production teams or brigades, and the women workers in a co-operative often combine into their own brigade or brigades. Each production brigade has its own accountant, and in the larger co-operatives the amount of book-keeping must be formidable. Lenin's adage, 'Socialism is the keeping of accounts,' is only too true (one often wondered whether the present insistence on recording even the pettiest sales of tuppenny ha'penny 'joint State and private' street-market stalls was worth all the trouble). A member's income depends on the number of work-days (notional) he or

she puts in per year. Each work-day consists of ten work-points (one work-point is notionally equivalent to one hour's work), and there is a very fine grading of the different qualities of work, especially in the larger co-operatives.

Collectivisation in the co-operatives we visited had generally resulted in increases in the number of work-days per year, in land under irrigation and therefore also the index of double cropping, in land reclaimed, in productivity per *mou* (= 0.1647 acres) and in incomes per family. While there were variations in all these increases as between the different co-operatives, the general upward movement was quite marked and in some cases striking.

The increase in the number of work-days per year is most important. The former under-employment of rural labour was an essential element in the economic case for carrying through collectivisation independently of mechanisation. The national average for men even now is only 200 work-days per year, and the original goal for 1967 set by the Draft Twelve-Year Programme for Agriculture is 250 days, a goal which will almost certainly be exceeded. There is still enormous scope for all kinds of improvements through water conservancy works, etc., requiring little capital and much labour. Only this last winter 100 million peasants working mostly on small-scale projects with very low capital intensity brought 65 million acres of dry land under irrigation. It is the abundance of labour which explains the apparent paradox that Chinese farming has become more and not less labour-intensive with collectivisation.

Even the co-operatives in densely populated and cultivated areas, such as the ones we saw, have been able to reclaim some land by the elimination of now superfluous boundaries and paths and by transferring family graves to village cemeteries—though travelling through Shantung and Hopei by train one still sees many individual tombs in the fields—as well as by water conservancy work.

Mechanisation

The level of mechanisation is still extremely low. A few co-operatives use the services of machine-and-tractor stations for ploughing part of the land, but they are very exceptional. Large-scale mechanisation is bound to be a very gradual process, as much because of the abundance of labour as because of the scarcity of capital; which, of course, are only the two sides of the same medal. There are, however, other aspects of mechanisation which are being facilitated by the co-operatives, particularly the growth in the use of power for pumping and irrigation. We enjoyed the pride and enthusiasm with which the director of a co-operative outside Sian showed us the 60 h.p. electric motor operating two 30 h.p. diesel engines (acquired with the help of an adjacent factory) which had directly contributed to increasing the area under irrigation by 150 acres. (This co-operative occupied the site of a Han palace, and the director's house had a Han doorpost and Han sewage pipes. We were shown what is perhaps the most aristo-

cratic heap of rubble in the world, consisting solely of lumps of Han brick dug up by the peasants in the course of their work. The sense of the past-in-the-present is ubiquitous in China.)

All the co-operatives we saw seemed to have pretty well overcome their teething troubles. In some cases, a small number of peasants had quit at an earlier stage, only to rejoin shortly afterwards when they saw that their income as isolated cultivators was lower than that of co-operative members. We came across one solitary exception, a peasant who had left the Nine Stars Co-operative outside Shanghai and whom we interviewed personally at some length. He claimed that as he was the only working person in his family, the income he had derived from the maximum number of work-days he could reach in the co-operative was insufficient. He could earn more, he said, by tilling the land he had taken out of the co-operative and by transporting the vegetables he grew by bicycle to Shanghai for sale. In fact, he had only just returned from such a journey to Shanghai. He also claimed that he worked better than the other members of his production brigade, who ignored his advice. Yet when asked what he would do when his children grew up and there would not be enough family land for them to work, he replied without hesitation that, of course, he would rejoin the co-operative.

How Co-operatives are Governed

The chief director of the same co-operative was a handsome young woman, still unmarried, who had been illiterate in 1949. She not only had most of the key facts about the co-operative at her finger-tips, she also showed a quick grasp of the broader and more complex problems of agricultural policy in so far as they bore on her co-operative. In this respect she was typical of all the chief directors of the co-operatives whom we met. In most cases they had been illiterate before liberation and they were all obviously endowed with a high general intelligence. It should be stressed that the chief directors are not appointees from the outside, as in the *kolkhoz* (in the Soviet Union), but are themselves members of the co-operative elected to their job by the members; as far as we could gather, they are generally Communist Party members.

Each co-operative has a board of directors, of whom at least one is a woman, and a separate supervisory or management committee for which directors are ineligible. Membership of both these bodies is by election at annual meetings. In order to prevent the growth of bureaucratism among directors and to ensure that they maintain close contacts with co-operative members and their problems, they are usually required to do two days' manual work a week in the field or on subsidiary occupations. Wherever possible, directors have taken concentrated short-term training in book-keeping, farm management, modern agricultural techniques and the techniques of subsidiary occupations such as animal husbandry, usually at Technique Popularisation Stations. Co-operative directors always receive a slightly higher than average income as their salary. But in return they work much harder—in terms of work-days per year as well as of responsibility—than the average member. Often they work right through the year, taking time off only for the national holidays.

The praise bestowed by the Indian Government agricultural delegation in 1956 on the work of the Technique Popularisation Stations¹ seemed to us to be fully deserved. These stations have made a great contribution in training the managerial, administrative and technical personnel of the co-operatives and also in helping the latter to overcome all sorts of difficulties arising in the transition to larger-scale production. The co-operatives make as much use as they can of the T.P.S.s, which are themselves desperately short of trained personnel.

Agricultural Planning

In planning for agriculture the emphasis is on two-way co-ordination rather than on detailed supervision, which is obviously out of the question when there are 750,000 units of production (not to mention the State farms and the 3 per cent. of the peasants still on individual farms). The central government assigns broad targets for the provinces, the provinces for the counties and the counties for the co-operatives. These targets are set in successive discussions and are based on past performance, but the discussion involves two-way communication so that the targets are subject to amendment. At the final stage, the co-operative itself adopts its reference target only after talks from the top down and from the bottom up, between the directors and the management committee down to the production brigades and their constituent teams.

On the whole, the Chinese seem to prefer not to rely on price incentives in the production of major crops and to confine them rather to side-occupations, such as pig- and chicken-breeding, animal husbandry and the like. There is a combination of ethical appeals and price incentives, and in the first period of collectivisation the co-operatives tended to concentrate exclusively on grain to the detriment of side-occupation products. But there is no doctrinaire reluctance to use price incentives where necessary; soya beans and cotton are outstanding examples of major crops whose prices were raised in order to stimulate production.

Living Standards

There is rationing of grain both in the city and in the countryside, but the ration is adequate and the peasants' *per capita* grain consumption now averages slightly over 1½ lbs. per day. In general, the function of rationing—of cotton cloth as well as of grain—is not to curtail consumption below existing levels but to prevent it from rising too rapidly, so that too many of the gains of increased production do not go into increased consumption and too few into accumulation. Pork is now also rationed as a result of the increasing demand accompanying rising purchasing power and standards of living. Last year the government raised the price it paid for pigs, and the number increased from 97 million to 127 million. Meat is still a luxury in the countryside, and it will take a long time to raise the animal protein content of the rural diet to an adequate level.

The Chinese countryside is extremely poor, and necessity is the mother

¹ *Report of the Indian Delegation to China on Agricultural Planning and Techniques*, New Delhi, Government of India Press, 1956, pp. 141-146.

of its proverbial frugality. Indeed, the secret of what Owen Lattimore calls 'the Chinese style of life' is the overwhelming environmental pressure to make the most of all available resources, the current use of the abundant supply of labour being an excellent case in point. At the same time, an outsider returning to China after a number of years cannot but be impressed by the perceptible improvements in living standards that have taken place. As a result of the elimination of systematic malnutrition and starvation and of the dramatic progress in hygiene and public health, the rural population is increasing at a rate of between 2 and 2½ per cent. a year.

In addition to visiting peasant houses at random in all the co-operatives we saw, we also dropped in during walks in the country. The houses were invariably clean, and the thermos flask was to be found everywhere; in the more prosperous co-operatives bicycles were not uncommon and in a few cases there were sewing machines. It would have been unthinkable to find these commodities in peasant houses ten years ago. All the co-operatives had schools which were provided either by the co-operative or by the government, and all had their own dispensaries or access to a nearby government clinic. In one co-operative there was a fairly large and neat flower-plot. When we asked if these flowers were grown for the urban market, we were very politely snubbed by the answer, 'No, we grow them for our own pleasure.'

3. FACTORIES

WE walked through a number of factories and plants in Peking, Shenyang, Fushun, Anshan, Changchun, sian, Chungking, Wuhan and Shanghai. The first thing one notices is the absence of strain and tension. No one seems to be in a desperate hurry, and at least from superficial observation it would appear that the sense of effortlessness is due to good management and good relations between labour and management as well as to the 8-hour day and the general absence of overtime.

The second thing one notices in the heavy industrial plants, mines, power stations and construction works is the presence of substantial numbers of people who appear to be doing nothing. In fact they are students, technicians and skilled workers being trained for new plants in the same line now in the course of construction. Thus, Anshan is already training the highly skilled iron and steel workers needed for the new Wuhan and Paotow complexes; the Changchun No. 1 Automobile Plant is training many people for the No. 2 and No. 3 Automobile Factories; and Shanghai, China's greatest reservoir of skilled labour, has trained large numbers of workers in heavy and light industry in addition to exporting a significant number of engineers and technicians and tens of thousands of skilled workers to the new plants that have gone up or are going up in the interior. The factory is a vocational school, technical school and university as well as a concern directly engaged in production.

The third thing which is very striking is the enormous variation in labour intensity in transport. Even outside the environs of a most modern

factory, such as the Anshan automatic rolling mill or the Changchun automobile works, there is a regular sequence first of freight trains, then of four-ton trucks, then of rubber-tyred mule carts, then of smaller rubber-tyred carts pushed by men, then of men with wheelbarrows, and lastly of men with the traditional pole and two baskets. This juxtaposition of ancient and modern is a common phenomenon, and of course makes good sense from an economic point of view. It is right and proper that China should make the best utilisation of everything she has, from the Chengtu silk handicraft workshop we saw where the main source of power was pedal, through the Peking iron and steel handicraft works which could serve as a museum of the Industrial Revolution to students of economic history, right down to the most modern automatic power station operated by a few men at the switchboard. It would be nonsense for China to adopt the latest capital-intensive methods indiscriminately, and telling the Chinese that the optimum production functions depend on economic as well as on technical considerations is like bringing coal to Newcastle or rice to Szechuan.

Waterways

However, they seem to be less aware of the relative advantage of rail over water transportation. We learned from the administrative staff of the new Wuhan steel complex that a 60-mile railway from the iron ore mine at Tayeh to Wuhan was being completed but that they were not intending to build a canal from Tayeh to the Yangtze. Tayeh lies less than $4\frac{1}{2}$ miles from the Yangtze and, what is more, its iron ore mine is open-cast, which should, if anything, enhance the advantages of all-the-way water transport.

Interviews with factory administrative staffs revealed that industrial enterprises have hitherto been provided with working capital by the Ministry of Finance or the banks on a virtually interest-free basis, and that consequently banks have played a smaller part both in planning and supervising plan-fulfilment than they do in Russia. That the current system has its drawbacks is clear from the Minister of Finance's confession in his Budget speech of February, 1958, that the management of working capital 'is one of the weakest links in our financial system.' Judging from his announcement of an increase in the rate of interest on short-term bank loans to industrial enterprises, the trend in China is towards the Russian pattern and the pressure on the banks to ration working capital more tightly should result in their being more directly involved in industrial planning.

Soviet Technical Assistance

In Peking the number of Russians in the hotels and streets was noticeably smaller than a few years ago, and we made a point of asking how many Russian engineers were working at all the big factories and plants we visited. Almost invariably they had started off with a fair number of Russian engineers and technicians, which had dwindled in the course of time. On the day we visited the Changchun No. 1 Automobile Plant, the management had just seen off three Russians, and there were only two Soviet specialists functioning as advisers, both of whom have since left. With few variations this pattern seemed to be uniform in heavy industry. In

this respect also China seems to be following the Russian model. During its First Five-Year Plan Russia employed foreign engineers—American, British and German—for the initial planning of new enterprises and for training Russian engineers. As soon as the enterprises were completed and an adequate domestic supply of trained staff was available, the services of foreign specialists were dispensed with. It seems to be a matter of deliberate Sino-Russian policy wherever possible not to keep the same experts in China for too long a spell of duty, the point being that China gets the benefit of the most up-to-date Russian techniques and that the Russian advisers do not fall behind the best practice in the Soviet Union, both considerations of great importance when technical progress is occurring so rapidly.

One final observation. The Chinese are not mere learners or copyists. The revolutionary innovation in bridge-building which saved two years in the construction of the Wuhan bridge was a joint product of Russian and Chinese engineers.

Wage Differentials

As the plants we saw were mostly large-scale heavy industrial enterprises, their wage-levels were higher than the national average, although their wage-structure conformed to the national pattern. There is a national scale of wages with regional variations in accordance with local differences in the cost of living; thus Shanghai, which has the highest cost of living in China, also has the highest wage rates. Production labour is divided into eight grades according to skill. In Anshan, Fushun and Changchun the basic wage—excluding bonuses and piece-rate peaks—is 105-120 yuan per month, or about three times that for the lowest grade, while the average wage falls just about halfway between. Factories provide many services and amenities which are not included in or deducted from basic wages, so that real wages are somewhat higher than money wages. Furthermore, rents of houses or flats furnished by factories for their staffs are very low, amounting to less than the equivalent of 10s. per month. The increase of around two-fifths in *per capita* money wages during the First Five-Year Plan, the establishment of the principle of equal pay for equal work, the eight-hour day, the great improvements in factory working conditions and the provision of basic amenities in the way of housing, health and education, have all contributed to a striking advance in working-class living standards. In 1956 average weekly wages per head for the whole non-agricultural labour-force worked out at £1 15s. at the official rate. After making all due allowances for low rents, for government supplements to money income and for the irrelevance of the official exchange rate to the internal purchasing power of the yuan, working-class living standards are still undoubtedly very low.

The highest wage for engineers is generally between 2 and $2\frac{1}{2}$ times and more rarely three times that of the highest basic wage for a skilled worker. The best-paid engineers often get as much as, and in one or two cases, more than, the plant managers. While China is not an equalitarian society, the gap between the highest and lowest urban incomes is not very

wide. The wage spread for all workers engaged in production and administration, including technicians, engineers and administrative staff, is of the order of 6—9 to 1. There is, of course, considerable vertical mobility and many technicians and engineers are recruited from the skilled workers' ranks. The Vice-Director of the Shanghai Power Plant worked in its electrical workshop before 1949.

The gap between urban and rural living standards poses more serious problems than intra-urban differences. Very roughly speaking, the average town family has just about double the income of the average village family. If the spread between prices in city and country goes some way to reduce this difference, the non-wage supplements to real income, not to mention the amenities of urban life, operate in the opposite direction. The balancing of progress in the town against the rate of progress in the country is obviously one of the most difficult and critical tasks facing Chinese planners and it will remain so for a very long time.

Westerners going through Chinese factories cannot help being struck by the absence of a gulf between workers and intellectuals. Relations between individuals in China seem to be refreshingly direct and to be free from the Western diseases of alienation and excessive self-consciousness. Perhaps these are advantages possessed by a society in which capitalism had not taken deep root before its transition to a Communist way of life. None of which is to discount the very real disadvantages, social and cultural as well as economic, of the feudal legacy.

Uneven Rate of Growth

One tentative conclusion suggested by the Chinese record in industrial planning may be of some interest to economists. With one essential qualification the Cobweb Theorem (concerning a cycle in production due to delayed reaction to the current situation) seems to hold for Communist planning and particularly for annual planning. The qualification, of course, is that the swings are not in direction but in the rate of growth. The general upward trend has been consistently maintained from year to year, but the annual rate of growth is perceptibly uneven. Thus the annual percentage rates of growth in gross industrial output from 1953 to 1957 were 31.7, 16.7, 7.8, 31 and 6.9 (preliminary), and the originally projected growth in 1958 was 14.6 per cent. This unevenness is not so surprising in an economy in which agriculture accounts for about half the national income (narrowly defined), in which there is a one-year lag between agricultural and light industrial output and in which the harvest can be predicted only within very rough limits. But also it seems that there is a tendency to over-correct errors, which of itself would generate the Communist version of the Cobweb Theorem.

Housing Standards

Housing is an acute bottleneck for a rapidly industrialising society. While it is classified as 'non-productive investment' in Communist countries, it is nevertheless an ineluctable necessity and, as the case of Russia proves,

rising living standards intensify the pressure to increase allocations to residential construction. According to Po-I-po, the Chairman of the State Economic Commission, state expenditures on housing amounted to nearly a quarter of the £7,000 million spent on capital construction during the First Five-Year Plan. And yet demand always outruns supply. Wherever we went, we looked at the new working-class apartments and buildings which adjoin new factories. If the accommodation and facilities they provide are meagre enough on Western standards, they are clearly highly prized by their inhabitants. When we saw the two- and three-roomed apartments occupied by workers and technicians from the Changchun No. 1 Automobile Plant, we were informed that the housing standards adopted at the time of their construction were too extravagant and that current standards are somewhat more modest. This point was confirmed in Peking by an economist who explained that even a slight reduction on these lines meant substantial savings in capital construction expenditures for factories.

The move from the old working-class dwellings in Shanghai to the new (post-1952) one-room apartment plus communal kitchens and facilities must mean a big jump in the standard of living. No less revealing is the amount of effort put into making the older dwellings more inhabitable. This work is done by the residents themselves under the leadership of City Neighbourhood Committees with municipal government support and assistance. It embraces improving the streets as well as houses, creating elementary amenities, making educational facilities available, and so on. In some ways the gap between what was formerly a filthy slum and is now a community-conscious block is as impressive as that between the same block and the newer working-class dormitories.

Stability and Migration

As in Eastern Europe, the factory is the social as well as the economic unit. Housing estates, shopping centres, schools and theatres are built around the factory, and it is the factory which is responsible for providing living quarters. At the same time, China seems to have been successful so far in avoiding such maladies of urbanisation as increases in juvenile delinquency and in drunkenness. Perhaps the main reason for this success is the stability of the family unit. One of the things that impressed us most in the working-class apartments we saw was that each family always had a grandmother living in. If both parents work, it is the grandmother who looks after the children and defends them against rootlessness. It is the grandmother who preserves the continuity of the family unit which the move from town to country is otherwise liable violently to disrupt.

Planning should confer certain advantages in coping with the economic and social problems arising from the large-scale migration of labour. It makes it easier to keep together people who are moving from one place so that they are not isolated in the new environment. The most dramatic example we came across was in Wuhan, where a whole division of demobilised soldiers was taken on by the company engaged in constructing the new Wuhan iron and steel complex. As most of them were single, dances

were arranged with nearby textile factories, and bachelors were given vacations in their native villages to give them a chance to find wives. The General commanding the division, we were told, was given an administrative post not because of his rank but because of his age, army rank not being taken into account in the allocation of jobs.

4. POPULATION

IT used to be the convention to estimate the population of China as 400 million. The census of 1953 revealed the numbers on the mainland (excluding Taiwan and Chinese overseas) as 582 million and the 600 million mark was soon passed. The total is now about 640 million. The present rate of growth is estimated as 2—2½ per cent. per annum, or 12-15 million a year.

Since there are no reliable figures for earlier times we have to proceed by guesswork. It seems clear that the birth rate must have risen sharply after the completion of liberation in 1949. The mere restoration of law and order after so long a period of chaotic conditions must have led to a 'post-war bulge' in marriage and births. The birth rate seems, at least, to have returned to the pre-1937 level. In the normal way the increase in births would be expected to grow even greater in the future as the 'bulge' passes into the marriageable ages. Moreover, marriages are at present to some extent held back by the abnormal distribution of the sexes in different parts of the country. It is very noticeable that there is a marked surplus of women in, for instance, the regions around Shanghai, which suffered heavily in the war, compared to regions to which the Japanese armies and Kuomintang conscription did not penetrate. Conversely, there are cities and regions where men are in excess, for although the plan of industrialisation takes account of the need to balance men's and women's trades (say, heavy engineering with textiles) it is not possible to do so completely. These discrepancies will gradually iron themselves out, and this will tend to increase the marriage rate still further.

The main cause of the high rate of growth of population, however, is not anything to do with births and marriages; it is the sharp fall in the death rate that has occurred since liberation. China is experiencing the typical explosion of population which takes place when a community passes out of the cruel primitive equilibrium of a high birth rate and a high death rate into a phase when the death rate has fallen and the birth rate remains at the primitive level.

Marx and Malthus

The restoration of law and order and the institution of relief measures to prevent famine from following droughts and floods have made a great difference. As usual, however, the most important factor is the fall in infant deaths. It is estimated that formerly 200 per thousand of babies died within the year. The infant death rate is now down to 75 per thousand in a typical district, and down to 40 per thousand in the big cities. This has been achieved mainly by teaching the mothers and midwives the most elementary rules of hygiene. Improvements in health and in hygiene will

continue, further tending to accelerate the rate of growth of population.

In the first years after liberation the Chinese leaders turned a blind eye to the population problem. The vulgarised Marxism which is current nowadays encourages an illogical style of argument on the principle that two blacks make one white. Thus the fact that the population problem has often been used, from the time of Malthus till today, as an excuse for opposing means of relieving poverty under capitalism is treated as sufficient proof that not even the most rapid rate growth of numbers could be a cause of poverty under socialism.

At one time Chinese spokesmen were inclined to take this line, but presumably they did so from a misguided desire to be good Marxists. In the Chinese setting this was peculiarly inept, and now commonsense has prevailed over dogma.¹

So far as agriculture is concerned, a reduction of land per head cannot possibly do the Chinese economy any good. Cultivation is intensive and hardly at all mechanised. The existing labour force contains a great potential reserve of manpower which could be released by a very small amount of investment in equipment, especially in transport. The cultivable area of land could be greatly increased, but this is a capital investment competing with other investment schemes. If it is considered to be rewarding on its own merits there is no need to wait for an increase of numbers to undertake it. On the other hand, if an increase in numbers (raising the over-all demand for food) makes it obligatory, so much the less investment can be undertaken in industry or in social amenities.

Population and Investment

The growth of employment in industry depends upon the pace at which equipment can be built up. It would be an unwise policy to release workers from low-productivity occupations, such as pulling carts or carrying poles, until means of production are available to employ them in better ways. There is no point in mechanising to save labour which will only be unemployed. Taking the pace of industrial development as given, the more labour there is to absorb from a growth in overall numbers, the longer it will be before mechanisation to release labour from low-productivity occupations becomes possible. But that is not all. The pace of industrial development itself could probably be more rapid if numbers were smaller, for the agricultural surplus available for supporting investments and for

¹ Contrast for instance the following two statements. Chen Po-ta, in discussing the projected doubling of grain output between 1956 and 1967, said in February, 1956—'In that case, China can find room for another 600 million people at least. Still greater developments will assuredly take place in agriculture after the first twelve-year plan is fulfilled. There is in fact no sign of over-population in China.' (*People's China*, 16th March, 1956, pp. 10-11.) Yet in the previous October, Chen Yi, Vice-Premier and now Minister of Foreign Affairs, told a visiting delegation of Frenchwomen: 'It is impossible to keep on having children without limits. Over-population is in the interests neither of the country, nor of the family, nor of the children.' (Cited by A. Sauvy, 'La Population de la Chine,' *Population*, 1957, p. 702.)

exports to purchase capital equipment is likely to be less the greater the number of mouths that have to be fed in the countryside.

How far the Chinese discussion which was opened in 1955 followed these lines we do not exactly know, but certainly the conclusion arrived at was that, on purely economic grounds, a very much smaller rate of growth of numbers of Han people is to be desired. (An exception is made for the National Minorities on political rather than economic grounds.)

It appears, also, that soundings which were taken as to the personal attitude of the people told in the same direction. As one would expect, town people were found to be more ready and eager for information and help with birth control than country people, women more eager than men, and young couples than their parents-in-law, but taking it on the whole the people were found to be favourable to the idea of restricting births.

The principal reason for this, clearly, is the dramatic fall in the infant death rate, which changes the whole pattern of family life. In the West the changeover from a situation in which even wealthy and well-cared-for wives like poor Mrs. Thrale were 'for ever bringing and losing babies' to one in which the loss of a baby is a rare and dreadful tragedy took place over a period of several generations, and the revolution of thought and habit which accompanied it was gradual and worked slowly through the population from higher to lower income levels. It seems that in China this long evolution is being packed into a period of a few years.

Family Planning

Another long and still unfinished process in the West—the establishment of legal equality between women and men and its acceptance as a commonplace—has taken place in China with great speed, and for obvious reasons this has a close connection with the desire for family planning.

So far as the economics of the individual family is concerned, it is clear that in the cities there is every advantage in reducing the size of families. The level of wages is low but has risen, bringing new aspirations, while opportunities and facilities for married women to work are plentiful (both in the professions and in industry). Two earners are better than one. Creches are provided at the modern factories and pauses are allowed for nursing mothers, but all the same it is easier to work and earn without a baby than with one.

In the countryside the economic pressure towards smaller families is not so immediate. True, women in the co-operative farms can earn labour-days to augment the family income, as well as working in the house and private garden, but children are less of an impediment in the rural setting, and, indeed, begin to earn a little themselves at a fairly early age. In the longer run it seems that large families will be unpopular in the co-operatives. Chinese officials are (very wisely) reluctant to discuss hypothetical questions and we did not succeed in getting any definite answer as to what will be the legal rights of the children of the present generation of farmers, but we assume that everyone who is born in a co-operative automatically has the right to become a member. The labour to land ratio is already high, and as numbers grow the scope for earning labour-days will

dwindle and average income will be harder to maintain. Presumably, therefore, a large family will be a menace to the neighbours and social pressure will reinforce private interest.

In the West the idea of family planning was gradually developed and gradually spread, after a fall in death rate had set in, and there was a long and bitter struggle (which, indeed, still continues) to make publicly acceptable and legitimate the ideas and the behaviour evolved in the dark recesses of private life. In China the process by which the need for birth control as an adjunct to 'death control' became recognised was not a secret revolution of thought carried out against pious disapproval, but an open discussion, in which personal, medical and social aspects of the problem were debated, and in which authority quickly came down on the positive side.

Spreading Knowledge

Having decided that, both from the point of view of the national economy and from the point of view of the needs of individuals, birth control was to be desired, a nation-wide campaign was launched to popularise it.

For the townspeople the types of contraceptives known in the West are on sale at cheap prices (mainly produced in China) and exhibitions are held in each city to explain them. (The Westerner, for whom the subject has never been freed from associations of low jokes, is somewhat disconcerted by the very simplicity of this way of going about things.) Booklets and posters are disseminated and discussions encouraged.

In the countryside meetings are called for men and women separately on market days, when people from a number of villages assemble and discussions are opened and instruction is given. Simpler methods than those offered in the cities are advocated.

The so-called rhythm method is explained in the booklets, but it is regarded as unreliable. Research is going on to discover some new techniques, and the lore of the various National Minorities is being examined in the hope of finding a wonder drug.

All this has been going on for less than a year. Such a bold and forthright attack upon the population problem is a unique experiment, from which the world has much to learn.

POSTSCRIPT

WE have preferred to stick to our own first-hand impressions of China in the autumn of 1957 and have deliberately refrained from referring to subsequent developments except to bring one or two figures up to date. Our primary interest is in China as a functioning economy and in China's response to the long-term problems of industrialisation and the growth of population.

The basic pattern of the Chinese economy had already been set in the period of 'the high tide of socialism' in the winter of 1955-56 when the majority of Chinese peasants entered agricultural producers' co-operatives and when the private industrial sector was transformed into 'joint State and private enterprises.' This pattern, it is safe to predict, will persist during the Second and Third Five-Year Plans with, of course, a continued trend towards fuller socialisation of the joint sector.

There is room for only a few comments on the events of 1958 which the Chinese have already named the Year of the Great Leap. First, the revised targets of an increase of about one-third in gross industrial output and of about one-fifth in gross agricultural output on 1957 appear to support the conclusion that the annual rate of growth is perceptibly uneven and that the pattern of year-to-year planning tends to conform to the Communist version of the Cobweb Theorem (see p. 14). Second, the rapid expansion of local industry on which so much stress is being laid is facilitated by the abundant supply of labour and is yet another manifestation of the national propensity to make the most of all available resources.

Third, while the revised target of a rise of 20 per cent. in gross agricultural output is a most formidable undertaking, its feasibility must be judged in the light of the preliminary results for the bumper winter wheat harvest in the summer of 1958. What is more important, even if the target of a 20 per cent. rise were only roughly approached, it would suggest that the margin between the increase in food supply and the increase in population had become sufficiently wide as greatly to simplify the problem of long-term planning. Certainly, a repetition of the 1957 experience when grain crops were less than $1\frac{1}{2}$ per cent. higher than in the previous year would be a grave blow to the ambitious Second Five-Year Plan goals for industrial as well as agricultural expansion. But the Chinese seem fully confident that such a contingency is highly unlikely.

Finally, it is already reasonably clear that China is well on the way to surmounting the hump of the first and hardest stage of industrialisation, and that it is only a matter of time before she becomes a leading industrial power. Whether it takes five, ten or fifteen years will be less significant both for China and the world than the end-result.

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