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EBD/84/277

ROOM E-120

01

October 29, 1984

To: Members of the Executive Board

From: The Secretary

Subject: People's Republic of China - Reform of the Economic Structure

There follows for the information of Executive Directors the full text of the decision of the Central Committee of the Communist Party of China on reform of the economic structure, adopted by the Twelfth Central Committee of the C.P.C. at its third plenary session on October 20, 1984.

In a supplement to its report for the 1984 Article IV consultation with China, the staff will include a summary of the salient points of this decision, together with a preliminary appraisal:

The Third Plenary Session of the Twelfth Central Committee of the Communist Party of China, having analysed the current economic and political situation in China and summed up the experience, both positive and negative, in socialist construction, and particularly that of reform of the economic structure in the urban and rural areas over the past few years, holds the consensus view that, proceeding from the overall need to build socialism with Chinese characteristics by integrating the basic tenets of Marxism with actual conditions in China, we must go a step further with the policy of *invigorating the domestic economy and opening to the outside world* and accelerate the restructuring of the national economy as a whole, with the focus on the urban economy, so as to create a new, better situation for our socialist modernization.

I. Reform is a Pressing Necessity in the  
Current Developments in China

China has prepared and practiced reform of its economic structure for several years. The Third Plenary Session of the Party's Eleventh Central Committee, in deciding to shift the focus of the work of the whole Party to economic construction, stressed the imperative need to reform the economic structure for China's socialist modernization. The Party made tremendous efforts after that session to set things to rights and readjust the national economy, and carried out reform mainly in the rural areas. The Twelfth Congress, basing itself on the historic change consequent upon the rectification of the guiding ideology of the Party, set the explicit task of reforming the economic structure systematically. It pointed out that this reform would provide an important guarantee for keeping to the socialist road and achieving socialist modernization. In the past two years, and particularly since the beginning of this year, the Party Central Committee and the State Council have taken a number of policy decisions and issued major directives, stimulating reform in various fields in depth and breadth.

Our economic restructuring scored great achievements first in the countryside. Agricultural production, which worried us for so long, has been enabled to develop vigorously in a very short time, displaying the great vitality of our socialist agriculture. This is due fundamentally to a bold break with "left" ideas. We have changed the structure of China's rural economy that was incompatible with the development of the forces of production in agriculture and introduced across the countryside the system of contracted responsibility for production with remuneration linked to output, bringing into play the enormous initiative of the 800 million peasants for building socialism. The rural reform is going forward and the rural economy is moving toward specialization, large-scale commodity production and modernization. Therefore, there is an urgent need to unclog the channels of circulation between town and country, expand the market for the increasing amount of agricultural products, and satisfy the rising needs of the peasants for manufactured goods, science and technology, as well as culture and education. Our successes in rural reform and the demands on the cities by the growing rural economy provide highly favorable conditions for restructuring China's entire national economy, focusing on the urban economy.

Such restructuring has been repeatedly explored and tested in recent years, and a number of important measures have been taken. This has yielded marked results and important experience, and economic life has been invigorated to an extent unknown for many years. Our urban reform is only in the initial stage, however, and defects in the urban economic structure that seriously hinder the expansion of the forces of production are yet to be eradicated. The economic effectiveness of our urban enterprises is still very low, the huge potential of our urban economy is far from being fully tapped, and there is serious loss and waste in production, construction, and circulation. Expediting reform is a prerequisite for the growth of the urban economy. The cities are economic, political, scientific, technological, cultural, and educational centers where modern industry and members of the working class are concentrated, and they play the leading role in socialist modernization. Firm, systematic reform is the only way that the cities will play their due leading role of invigorating the urban economy and enlivening the domestic economy as well as opening to the outside world and promoting a healthier and faster development of the national economy as a whole.

It should also be noted that emerging on a global scale is a new technological revolution which presents both new opportunities and new challenges to our economic growth. This means that our economic structure must become better able to utilize the latest scientific and technological achievements, promoting scientific and technological advancement and generating new forces of production. Reform, therefore, is all the more imperative.

Political unity and stability in China are ever more consolidated: major successes have been achieved in economic readjustment; the economy has been growing steadily; the major targets of the sixth Five-Year Plan (1981-85) have been fulfilled ahead of schedule; and the country's financial situation has improved gradually. This has made all comrades in the Party and the people of all nationalities much more confident about socialist modernization. Their wish to speed up reform of the economic structure is much stronger. In particular, the sound all-round consolidation of party organizations at the central and the provincial, autonomous regional and municipal levels, has set, or is setting, to rights the ideas guiding all fields of work in modernization and has given, or is giving, the reform a clear orientation. Conditions are now ripe for all-round reform of the economic structure. We both can and must raise and expound, in a rather systematic way, a number of major issues related to the reform so as to achieve unity of thinking and enhance it among all comrades in the Party (particularly among leading party cadres). We must make the reform more effective and give fuller play to the superiority of socialism. The Central Committee hopes and is confident that the third plenary session of the Twelfth Central Committee will play a historic role in drawing up a blueprint for an all-round reform, quickening its tempo and stimulating the restructuring of the entire national economy with the urban economy as the focus, just as the third plenary session of the Eleventh Central Committee did in setting things to rights and raising the task of restructuring the economy and promoting rural reform.

## II. Reform is Aimed at Establishing a Dynamic Socialist Economic Structure

The founding of the People's Republic of China and the establishment of the socialist system marked the end of the century-old history of our people's misery in a semifeudal and semicolonial society. The system of exploitation was abolished and the people of all nationalities became real masters of their country. The people of the whole country, led by the Chinese Communist Party, have established an independent and fairly comprehensive industrial as well as national economic system through arduous efforts and have scored tremendous successes inconceivable in the old China, thus laying the indispensable material foundation for building China into a powerful and prosperous modern socialist country with a high level of democracy and civilization. The people of all our nationalities have come to realize through long historical experience that only socialism can save China.

The founders of Marxism predicted that by eliminating the exploitation of man by man, socialism would make possible a higher rate of labor productivity and a faster expansion of the forces of production. The profound changes that have taken place in the

35 years since the founding of the People's Republic are an initial demonstration of the superiority of the socialist system. But this superiority, it must be pointed out, has yet to be brought into full play. Apart from historical, political, and ideological causes, a major economic cause for this is a rigid economic structure that cannot meet the needs of the growing forces of production. Following are the major defects of this structure: no clear distinction has been drawn between the functions of the Government and those of the enterprise; barriers exist between different departments or regions; the State has exercised excessive and rigid control over enterprises; no adequate importance has been given to commodity production, the law of value and the regulatory role of the market; and there is absolute equalitarianism in distribution. This has resulted in enterprises lacking necessary decision-making power and the practice of "eating from the same big pot" prevailing in the relations of the enterprises to the State and in those of the workers and staff members to their enterprises. The enthusiasm, initiative and creativeness of enterprises and workers and staff members have, as a result, been seriously dampened and the socialist economy is bereft of much of the vitality it should possess.

China gradually established, a unified and centralized economic structure on a nationwide scale in the early postliberation days and during the first Five-Year Plan (1953-57) when the country faced the heavy tasks of unifying its financial and other economic work, carrying out socialist transformation of capitalist industry and commerce and undertaking large-scale, planned economic construction. However, control then was not very rigid in many aspects and the measures and steps we took for socialist transformation were based on China's actual conditions and were highly creative. But with the basic completion of socialist transformation and the ever-growing scale of economic construction, the measures taken to restrict and transform capitalist industry and commerce no longer suited the new situation. The defect of excessive and rigid control gradually became manifest in some aspects of the economic structure. The Central Committee and especially the comrades in overall charge of economic work, at the Eighth National Congress of the Party in 1956 as well as before and after, perceived this problem and raised some suggestions for correction. However, our Party was, after all, inexperienced in guiding socialist construction. Certain rigid concepts about socialism developed over the years that were not in keeping with the actual conditions in China. The influence of the "left" deviationist errors in the Party's guiding ideology after 1957, in particular, resulted in the various correct measures aimed at enlivening enterprises and developing socialist commodity economy being regarded as "capitalist." As a result of all these, the problem of overconcentration in the economic structure long remained unsolved and, what is more, became more and more serious. It is true that we tried to delegate power to lower levels on a number of occasions. But this was limited solely to readjusting the administrative power of the central and local authorities and of the

different departments and regions. The critical issue of giving enterprises decision-making power was not dealt with. We therefore failed to break with outmoded conventions.

To bring about a radical change in the economic structure that hinders development of the forces of production, we must conscientiously sum up China's historical experience and study the concrete conditions and requirements for economic growth. In addition, we must draw on the world's advanced methods of management, including those of developed capitalist countries, that conform to the laws of modern, socialized production. In line with the Party's consistent principle of integrating the fundamental tenets of Marxism with China's actual conditions and the principle of adopting a correct approach toward foreign experience, the Central Committee holds that we must emancipate our minds more, follow our own road and build a socialist economic structure with Chinese characteristics that is full of vigor and vitality so as to promote the growth of the forces of production. This is the fundamental objective of our present reform.

The basic contradiction in socialist society remains that between the relations of production and the forces of production, between the superstructure and the economic base. Reform of China's economic structure means reforming, on the premise of adherence to the socialist system, a series of interrelated links and aspects of the relations of production and the superstructure that are not suited to the development of the forces of production. As a form of self-improvement and development of the socialist system, this reform is to be carried out under party and government leadership in a planned, systematic, and methodical way. It should serve to advance, and not to impair, social stability, expansion of production, improvement of the people's living standards and the growth of state revenue. The essential task of socialism is to develop the forces of production, create ever more social wealth and meet the people's growing material and cultural needs. Socialism does not mean pauperism, for it aims at the elimination of poverty. We must, with firm determination and maximum tenacity, concentrate on economic development and modernize China's industry, agriculture, national defense, and science and technology. This is the inevitable trend of history and the wish of the people. In carrying out reform, all party comrades must unflinchingly grasp the above-mentioned basic concept of Marxism and set whether the reform facilitates this task as the most important criterion for assessing the success or failure of all reforms.

### III. In vigorating Enterprises is the Key to Restructuring the National Economy

The chief and direct responsibility for industrial production and construction and commodity circulation falls on urban enterprises. They constitute the main force spurring the growth of the forces of production and encouraging economic and technological progress. China

now has over 1 million urban industrial, building, transport, commercial, and service enterprises, with a total work force of more than 80 million. The taxes and profits delivered by urban industrial enterprises alone account for over 30 percent of the State's revenue. This means that the enthusiasm, initiative, and creativity of the urban enterprises for production and operation as well as their 80 million workers and staff members must be brought into full play, in other words, the urban enterprises must have great vitality. This has a vital bearing on basic improvement of the national economy as a whole and of the State's financial and economic situation and on quadrupling China's annual industrial and agricultural output value by the end of the century, a task set by the Party's Twelfth National Congress. Socialism with Chinese characteristics should, first and foremost, be able to instill vitality into the enterprises. In essence, the drawbacks of our present economic structure are precisely the lack of vitality in our enterprises. Therefore, the key to restructuring the national economy, with the focus on the urban economy, is invigoration of enterprises, particularly the large and medium-sized enterprises owned by the whole people.

With this key in mind, we must handle two types of relationships satisfactorily. That means we should extend the decision-making power of enterprises owned by the whole people by establishing a correct relationship between them and the State, and safeguard the status of the workers and staff members as masters of the enterprises by establishing correct relationships between them and their enterprises.

One of the main reasons why the State exercised excessive and rigid control over enterprises in the past was to equate the concept of their ownership by the whole people with the concept of their direct operation by the state institutions. As Marxist theory and the practice of socialism have shown, ownership can be duly separated from the power of operation. To make the economic activities of all enterprises conform to the overall requirement of economic growth, the socialist state institutions must manage, inspect, guide, and regulate the activities of the enterprises, as is necessary, through planning and by economic, administrative, and legal means; it must use taxation and other means to concentrate in its Treasury that part of enterprises' net income which should be used by the State in a unified way; it must designate, appoint, and remove the principal leading members of the enterprises or approve their employment and election; and it must decide on the establishment of enterprises, their removal to other places, their switching over to other lines of products, their merger with others, suspension of operations, or closing down. However, since social demand is very complex and in a state of constant flux, since the conditions in enterprises differ in a thousand and one ways and since the economic links between enterprises are complicated, no state institution can know the whole situation fully and cope with everything in good time. If the state institutions were to directly administer and manage various kinds of

enterprises owned by the whole people, it would be very hard to avoid serious subjectivism and bureaucratism, with a consequent suppression of enterprise vitality. Therefore, on the premise of following the state plans and subjecting itself to state control, the enterprise has the power to adopt flexible and diversified forms of operation: plan its production, supply, and marketing; keep and budget funds it is entitled to retain; appoint, remove, employ, or elect its own personnel according to relevant regulations; decide on how to recruit and use its work force, and on wages and rewards; set the prices of its products within the limits prescribed by the State; and so on. In short, the enterprise should be truly made a relatively independent economic entity and should become a producer and operator of socialist commodity production that is independent and responsible for its own profit and loss and capable of transforming and developing itself and that acts as a legal person with certain rights and duties. This is the way to ensure both overall unity of the growth of the national economy as a whole and the diversity and flexibility of individual enterprises in production and management as well as their desire to make progress. Instead of weakening socialist ownership by the whole people, this will contribute to consolidating and improving it.

The wellspring of vitality of the enterprise lies in the initiative, wisdom, and creativeness of its workers by hand and brain. When the status of the working people as masters of their own enterprise is guaranteed by its rules and regulations and when their labor is closely linked with their own material benefits, their initiative, wisdom, and creativeness can be brought into full play. This has been vividly and convincingly proved by our experience in rural reform. In restructuring the urban economy, it is imperative to handle correctly the relationship of the workers and staff to their enterprise so that they are its real masters and can work as such at their jobs. This will arouse their deep interest in the operation and effectiveness of their enterprise, so that their performance is closely linked with their social prestige and material benefits. Modern enterprise calls for centralized and unified leadership and direction of production and strict labor discipline. Because ours are socialist modern enterprises, in carrying out such centralized leadership and strict discipline, we must resolutely ensure the workers and staff and their elected representatives the right to participate in democratic management of the enterprise. Under socialism, there is unity between the authority of the enterprise's leadership and the status of the working people as masters of the enterprise and their initiative and creativity. This unity is a prerequisite for the proper, effective exercise of their initiative.

Correct relations between the State and the enterprise and between an enterprise and its workers and staff are the essence and basic requirement of the restructuring of the national economy as a whole with focus on the cities. Fulfillment of this basic requirement

inevitably calls for reform of every aspect of the entire economic structure. This involves a whole range of reforms including planning, pricing, economic management by state institutions, and the labor and wage system. The Central Committee is of the opinion that these reforms should be carried out step by step in harmony with the inherent connections between the various links of the national economy, according to the degree of ripening of the subjective and objective conditions and in the right order of importance, urgency and feasibility, and that they should basically be accomplished in about five years. Specific plans will be drawn up separately to this end.

IV. Establish a Planning System Under Which the Law  
of Value is Consciously Applied for Developing  
a Socialist Commodity Economy

Socialist society practices a planned economy on the basis of public ownership of the means of production. It can thus avoid the anarchy of production and cyclical crises characteristic of capitalist society and ensure that production constantly meets the growing material and cultural needs of the people. This is one of the fundamental indicators of the superiority of a socialist economy over a capitalist economy. Since the founding of the People's Republic, we have practiced a planned economy and concentrated vast financial, material, and human resources on large-scale socialist economic construction, with tremendous achievements to our credit. At the same time, historical experience shows that the socialist planning system should be one that combines uniformity and flexibility. We must take into account China's vast territory and large population, the difficulty of drastically improving in a short period its poor transport conditions, its inadequate information facilities, and the obviously uneven economic and cultural development of its various regions, and we must realize that because of China's rather undeveloped commodity production at the present stage, it is necessary to stimulate commodity production and exchange. In view of all this, it is all the more urgent for us to institute this planning system. If the actual conditions of our country are ignored and if we try to incorporate all economic activities into the plans and implement them by administrative orders alone in disregard of the importance of the economic levers and the market, then there will unavoidably be a discrepancy between the subjective guidelines for planning and objective conditions, with the plans seriously out of step with reality. After the October revolution, Lenin expressed the idea when working out Russia's plan for electrification that "a complete, integrated, real plan for us at present equals 'a bureaucratic utopia'." "Don't chase it" (see note 1), he added. Although China's conditions today are vastly different from those of Russia at that time when its economy was in extreme difficulties, our practical experience has proved that this idea of Lenin's was not only applicable to the Russia of that day, it is also of lasting significance. We

must be realistic and admit that for a considerably long time to come, our national economic plans on the whole can only be rough and elastic and that we can do no more than, by striking an overall balance in planning and through regulation by economic means, exercise effective control over major issues while allowing flexibility on minor ones. In this way, we will be able to ensure the appropriate proportions between the major economic branches and, in general, the proportionate and coordinated growth of the national economy.

In the reform of the planning system, it is necessary, first of all, to discard the traditional idea of pitting the planned economy against the commodity economy. We should clearly understand that the socialist planned economy is a planned commodity economy based on public ownership, in which the law of value must be consciously followed and applied. The full development of a commodity economy is an indispensable stage in the economic growth of society and a prerequisite for our economic modernization. It is the only way to invigorate our economy and prompt enterprises to raise their efficiency, carry out flexible operations, and promptly adapt themselves to complex and changing social demands. This cannot be achieved by relying only on administrative means and mandatory plans. Meanwhile, we must also realize that the extensive growth of a socialist commodity economy may also lead to certain disorder in production, and there has to be guidance, regulation, and administrative control through planning. This can be achieved under socialist conditions. Therefore, a planned economy by no means excludes the application of the law of value and the growth of commodity economy; they in fact form a unity. It would be wrong to pose one against the other. The difference between socialist and capitalist economy, as far as a commodity economy and the law of value are concerned, lies not in whether these are still functioning, but in the difference in ownership, in whether there is an exploiting class and whether the working people are masters of the State, in the different purposes of the production, in whether the law of value can be consciously applied throughout society and in the different scopes of commodity relations. Under our socialist conditions, neither labor power nor land, mines, banks, railways, and all other state-owned enterprises and resources are commodities.

In the light of historical experience and the practice since the Third Plenary Session of the Eleventh Party Central Committee, the basic characteristics of our planning system can be further summed up as follows: first, ours is on the whole a planned economy, that is, a planned commodity economy, not a market economy that is entirely subject to market regulation. Second, production and exchange completely subject to market regulation are confined mainly to certain farm and sideline products, small articles of daily use, and labor services in the service and repair trades, all of which play a supplementary but indispensable role in the national economy. Third, our planned economy does not necessarily mean the predominance of mandatory planning, both mandatory and guidance planning being its

specific forms. Fourth, guidance plans are fulfilled mainly by use of economic levers; mandatory plans have to be implemented, but even then the law of value must be observed. To reform our present planning system in accordance with the above points, it is necessary, step by step and to an appropriate extent, to reduce the scope of mandatory planning and extend guidance planning. Mandatory planning will be applied to major products which have a direct bearing on the national economy and the people's livelihood and which have to be allocated and distributed by the State, as well as major economic activities that affect the overall situation. Other products and economic activities which are far more numerous should either come under guidance planning or be left entirely to the operation of the market, as the case may require. The focus of planning will be shifted to medium- and long-term planning, and annual plans will be appropriately simplified. There should be a corresponding reform of the methods of planning. Full attention should be paid to economic information and forecasting so as to raise the scientific level of planning.

#### V. Establish a Rational Price System and Pay Full Attention to Economic Levers

Because the law of value was long neglected and because of various other historical reasons, there is much confusion in our present system of pricing. The prices of many commodities reflect neither their value nor the relation of supply to demand. This irrational price system has to be reformed. Otherwise, it will be impossible to assess correctly the performance of enterprises, ensure the smooth circulation of goods between urban and rural areas, promote technological advances, and rationalize the production mix and consumption patterns. This will result in an enormous waste of social labor and seriously hamper application of the principle of distribution according to work. As the decision-making power of enterprises grows, pricing will be increasingly important in regulating their production and operation. It is, therefore, all the more urgent to establish a rational system of pricing. The various aspects of the reform in economic structure, including planning and wage system, depend to a large extent on reform of the price system. Pricing is a most effective means of regulation, and rational prices constitute an important condition for ensuring a dynamic yet not chaotic economy. Therefore, reform of the price system is the key to reform of the entire economic structure.

Our present irrational price system finds expression mainly in the following: inadequate price differentials for a given product with diverse quality; irrational price ratios between different commodities, particularly the relatively low prices for some mineral products and raw and semifinished materials; and the retail price of major farm and sideline products being lower than their state purchasing price. From now on, we must gradually redress this irrational situation.

The irrational system of pricing is closely related to the irrational system of price control. In readjusting prices, we must reform the overcentralized system of price control, gradually reducing the scope of uniform prices set by the State and appropriately enlarging the scope of floating prices within certain limits and of free prices. Thus prices will respond rather quickly to changes in labor productivity and the relation between market supply and demand and better meet the needs of national economic development.

As the reform of the price system affects every household and the national economy as a whole, we must be extremely prudent, formulate a well-conceived, feasible program based on the growth of production and the capability of state finances and on the premise that the people's real income will gradually be increased, and then carry it out in a planned and systematic way. The principles guiding the reform are: first, we should readjust irrational price ratios on the basis of the exchange of equal values and changes in the relation between supply and demand, lowering or raising prices as the case may be. Second, when the price of some mineral products and raw and semifinished materials is raised, the processing enterprises must substantially cut down consumption so that the increased production cost resulting from the higher price of such products and materials can be basically offset within the enterprises, with only a small part of the increase being borne by the State through tax reductions and exemptions. This will avoid a consequent rise in market sales prices of manufactured consumer goods. Third, in solving the problem of the state purchasing farm and sideline products at prices higher than their selling prices and in readjusting the prices of consumer goods, we must adopt effective measures to ensure that the real income of urban and rural inhabitants does not go down as a result of price readjustments. Instead, with the growth of production and improvement in economic results, the pay of workers and staff members will have to be raised gradually. It must be widely publicized among the people that on the condition of developed production and ever-greater abundance of goods, the reform of the price system and readjustment of various irrational price ratios carried out on our own initiative will never bring about a general and spiraling price rise. Such a reform is the urgent need for further developing production and accords with the fundamental interests of the consumers. All enterprises should achieve better economic results through efforts to improve management and operation and should never try to increase their income by price increases. It is absolutely impermissible for any unit or person to boost prices at will by taking advantage of the reform, deliberately generating a tendency toward a general rise in prices, disrupt the socialist market, and harm the interests of the State and the consumers.

While reforming the price system, we should further improve the tax system and reform the financial and banking systems. The more the economy is enlivened, the more attention we should pay to macro-economic regulation and the more we should try to have timely grasp

of economic trends so as to use pricing, taxation, credit, and other economic levers better. This will help regulate such major proportional relations as those between aggregate social supply and aggregate social demand and between accumulation and consumption, regulate the direction of the flow of financial, material, and human resources; regulate the industrial setups and the distribution of the forces of production; regulate market supply and demand; regulate external economic exchange, and so on. We have fallen into the habit of using administrative means to keep the economy functioning and have long neglected the use of economic levers for regulation. Economic departments at various levels, especially the departments in charge of comprehensive economic management, must take it as an important task to learn to use the economic levers and make this aspect the focus of our leadership over economic work.

VI. Separate Government from Enterprise Functions so  
that Government Organs can Properly Perform  
their Function of Managing the Economy

After the proletariat and the whole people take state power in their hands, it becomes a basic function of the state organs to lead and organize economic construction. Over the past 30 years or more since the founding of new China, our state organs have, on the whole, played a significant role in performing this function. But how the state organs, especially government departments, can better lead and organize economic construction to meet the needs of the national economy and social development, still remains a question calling for effective solution. The functions of government for a long time were not separated from those of enterprises, which in fact became appendages of administrative organs, and the central and local governments took responsibility for many matters which were not really theirs and at the same time did not do well what they ought to do. This, plus the barriers between different departments or regions and the practice of endless wrangles, increased the difficulties in running enterprises. If this state of affairs were not changed, the enthusiasm of the enterprises and other grass-roots units could not be aroused, cooperation, association, and competition between enterprises could not develop, and a unified socialist market would not grow. Moreover, the role that government organs should play in managing the economy would be seriously weakened. So there is a pressing need to conduct reform in line with the principle of separating the functions of government and enterprises, streamlining administration, and instituting decentralization in order to invigorate the enterprises and the national economy as a whole.

Practical experience over the years shows the following to be the principal functions of government organs in managing the economy: they should formulate the strategy, plans, principles, and policies for economic and social development; work out plans for the exploitation of natural resources, for technological transformation, and for the development of intellectual resources; coordinate the development

plans of localities, departments or enterprises, and the economic relations among them; arrange for the construction of key projects, especially those in energy, transport, and the raw and semifinished materials industries; collect and disseminate economic information, learn to utilize economic means of regulation; work out economic regulations and ordinances and supervise their execution; appoint and remove cadres within a prescribed scope; administer matters related to external economic and technological exchanges and cooperation, etc. The performance of these functions requires immense efforts on the part of the governments at various levels. In the past, some of the functions were not performed well and others not performed at all. As far as the relations between governments and enterprises are concerned, from now on government departments at various levels will, in principle, not manage or operate enterprises directly. As for the small number of government economic departments that have been entrusted by the State with direct operations and management of enterprise, they must also correctly handle their relations with the enterprises under them through simpler administration and decentralization so as to enhance the capacity of enterprises and other grass-roots units for independent management and avoid drawbacks that may arise from overcentralization. The national and local corporations are economic associations set up for better economic development and mutual benefit of enterprises concerned. They must be enterprises and not administrative organs, and must not follow old practices, but should master modern methods of scientific management.

After the the functions of government and enterprises are separated, the the central role of cities must be brought into full play, and open and interconnected economic zones of various sizes gradually formed with support from cities, the large- and medium-sized cities in particular. In this reform it is necessary to call the attention of all leading urban comrades to the need for the city governments to separate their functions from those of enterprises and achieve simpler and decentralized administration, and not to repeat the past practice of mainly depending on administrative means to control enterprises so as to avoid creating new barriers between departments or regions. City governments should concentrate on urban planning, construction and management; bulding public facilities; carrying out comprehensive ecological improvement; guiding and promoting the specialized cooperation of enterprises, their reorganization, association and technical transformation and the modernization of their management and operation; guiding and promoting a rational circulation of materials and commodities; improving cultural, educational, public health and social welfare work and various services; promoting the building of a civilization with a high cultural and ideological level, and the fostering of better social conduct; and maintaining public order. Moreover, they should also work out satisfactory medium- and long-term plans for economic and social development based on the general requirements of developing the national economy and on local conditions.

The relationship between socialist enterprises is first of all one of cooperation and mutual support, but this by no means excludes competition. For a long time, people used to consider competition peculiar to capitalism. As a matter of fact, where there is commodity production, there is bound to be competition. The point is that the purposes, nature, or scope and means of competition vary under different social systems. Competition between socialist enterprises is fundamentally different from that under capitalism where the law of the jungle prevails. On the basis of public ownership and subject to the control of state planning and laws, and for the purpose of serving socialist modernization, our enterprises are put to the test of direct judgment by consumers in the market place so that only the best survive. This will help to break the blockade and monopoly hampering the growth of production, lay bare the defects of enterprises quickly and stimulate enterprises to improve technology, operation, and management. It will stimulate the economy as a whole and benefit socialism. As for some undesirable trends and unlawful acts that may appear in the course of competition, the relevant leading organs at various levels should keep a clear head and strengthen education and control and tackle such problems in real earnest.

More and more norms guiding economic relations and activities will have to be framed in the form of law in the restructuring of the economy and national economic development. State legislative bodies must produce economic legislation faster, the courts should make greater efforts to try economic cases, the procuratorates should strengthen their work in dealing with economic crimes, and the judicial departments should offer active legal services for economic construction.

The separation of the functions of government and enterprises as well as simpler and decentralized administration constitutes a deep-going transformation of the socialist superstructure. When the structure changes, the organization and the style of thinking and work should also change. We must unhesitatingly change the working style of government departments in accordance with the principles of serving the people and of streamlining, unification and efficiency and raise the competence of their functionaries. We must end the long-standing practice of leading organs making enterprises and units completely dependent on them, instead of serving the enterprises and other grass-roots units, and eliminate such bureaucratic maladies as organizational overlapping, overstaffing, vague delimitation of functions and endless wrangling. The leading organs at various levels will thus be able to orient their work toward promoting production, serving the enterprises and other grass-roots units, and helping build a strong and prosperous country and bring prosperity and happiness to the people.

VII. Establish Various Forms of Economic Responsibility System and Conscientiously Implement the Principle of Distribution According to Work

Experimental urban reforms in the past few years have amply demonstrated that the basic experience of the system for contracted responsibility in the rural areas is also applicable in the cities. Enterprises must specify in explicit terms the requirements for each work post and the duties of each worker and staff member and must establish various forms of the economic responsibility system with contracted jobs as the main content so as to invigorate the urban enterprises, raise the sense of responsibility of the workers and staff members, and bring into full play their initiative, enthusiasm, and creativeness. The basic principles of this responsibility system are a combination of responsibility, authority, and benefit; the unity of the interests of the state, the collectives and the individuals; and the linking of the income of workers and staff members with their job performance. In applying rural experiences to urban areas, we must take into account the characteristics of urban enterprises. It is neither feasible nor necessary to transplant mechanically the specific measures of the rural areas. As the nature of trades and the size and production conditions of enterprises differ from one another, urban enterprises cannot follow a single model of responsibility system. Our comrades, leading comrades of enterprises in particular, should always proceed from reality and in the course of practice gradually work out concrete forms of the responsibility system suited to their specific conditions. Then the contracted responsibility system will take root, blossom, and bear fruit in the cities.

Modern enterprises have a minute division of labor, a high degree of continuity in production, strict technological requirements, and complex relations of cooperation. It is therefore necessary to establish a unified, authoritative, and highly efficient system to direct production and conduct operations and management. This calls for a system of the director or manager assuming full responsibility. Party organizations in enterprises should actively support directors in exercising their authority in giving unified direction to production and operations, guarantee and supervise the implementation of the principles and policies of the Party and the State, strengthen the Party's ideological and organizational work in enterprises, improve their leadership over the trade unions and Communist Youth League organizations, and do effective ideological and political work among the workers and staff members. While the director assumes full responsibility, we must improve the system of congresses of workers NJGL staff members and other systems of democratic management, give play to the authority and role of the trade union organizations and workers' and staff members' deputies in examining and discussing major decisions to be taken by the enterprises, supervising administrative leadership and safeguarding the legitimate rights and interests of the workers and staff members. All of this expresses the status

of the working people as masters of the enterprise. Their status is determined by the nature of the socialist enterprise and must in no way be neglected or weakened.

With the general replacement of profit delivery by taxes and the widespread establishment of various forms of economic responsibility in enterprises, the socialist principle of distribution according to work will be implemented more fully. An important step already taken in this respect is that enterprises decide on the amount of bonuses for their workers and staff members according to the results of enterprise operation, while the State only collects an appropriate amount of tax on the above-norm bonus from enterprises. In the future, adequate measures will be taken to better link wages and bonuses with the improved enterprise performance. In the enterprises, the difference between the wages of various trades and jobs should be widened, so as to apply fully the principle of rewarding the diligent and good and punishing the lazy and bad and of giving more pay for more work and less pay for less work, as well as to fully reflect the differences between mental and manual, complex and simple, skilled and unskilled, and heavy and light work. In particular, it is necessary to change the present remuneration for mental work which is relatively low. We should also reform the wage system in state institutions and public organizations in accordance with the principle of linking wages with responsibilities and achievements. While reform of the wage system in enterprises, state institutions, and public organizations is under way, the reform of the labor system will be speeded up.

There has long been a misunderstanding about the distribution of consumer goods under socialism, as if it meant equalitarianism. If some members of society got higher wages through their labor, resulting in wide gaps in income, it was considered polarization and a deviation from socialism. This equalitarian thinking is utterly incompatible with scientific, Marxist views on socialism. History has shown that equalitarian thinking is a serious obstacle to implementing the principle of distribution according to work and that if it is unchecked, the forces of production will inevitably be undermined. Naturally, a socialist society must guarantee its members a gradual improvement in material and cultural life and their common prosperity. But, common prosperity cannot and will never mean absolute equalitarianism or that all members of society become better off simultaneously at the same speed. If common prosperity were understood as absolute equalitarianism and simultaneous prosperity, not only would this be impossible, but such thinking would lead to common poverty. Only when some regions, enterprises, and individuals are allowed and encouraged to get better off first through diligent work can there be a strong attraction and inspiration to the majority of the people. More and more people will be prompted to take the road of prosperity, one group after another. At the same time, we must provide social relief for the old, weak, sick, disabled, and for widows, widowers, orphans, and childless elders

who cannot support themselves. We must aid those who have not yet become well off and adopt special and preferential policies toward some old revolutionary base areas and minority nationality, remote and other areas where the economy is still very backward and give them the necessary material and technical assistance. The difference arising from the prosperity of some people before others is a difference in speed, with all members of society advancing on the road to common prosperity. It is certainly not polarization, which means that a handful of people become exploiters while the vast majority fall into poverty. The policy of encouraging some people to get better off earlier accords with the law of socialist development and is the only road to prosperity for the whole of society.

We must never discard the fine tradition of working hard and building the country through diligence and thrift that was developed during the long period of our revolution and construction. In the new historical period this tradition chiefly means the spirit of working hard and defying all difficulties in dedication to the motherland and the people, practice of strict economy in production and construction, opposition to any act that squanders state materials and funds, and avoidance of erroneous policy decisions that result in waste. It should not be misconstrued as overlooking due growth in the people's level of consumption, according to the basic tenets of Marxism, production is the starting point and the predominant factor of all economic activities and determines consumption; but consumption also determines production in that the growth of consumption gives a strong impetus to creation of new social demands, opens up vast markets and encourages production. We must gradually bring about substantial increases in the pay of workers and staff members and in the people's level of consumption. This should be based on increased production, better economic results, a steady increase in state revenue and a correct proportion of accumulation and consumption. It is incorrect to put forward demands for consumption in excess of the capacity of current production, but it is likewise incorrect not to appropriately increase but keep restricting consumption that is well within the capacity of current production.

VIII. Work to Develop Diverse Economic Forms and  
Continue to Expand Foreign and Domestic  
Economic and Technological Exchanges

We must mobilize all positive factors if we are to achieve rapid growth in all fields of production and construction and make our country strong and prosperous and our people rich and happy at a fairly fast pace. Under the guidance of state policies and planning, the initiative of the state, the collective and the individual should all be encouraged. We must work to develop diversified economic forms and various methods of management, and we must actively expand

foreign economic cooperation and technological exchange on the basis of independence, self-reliance, equality and mutual benefit, and mutual good faith.

Enterprises owned by the whole people constitute the leading force in China's socialist economy and are decisive in ensuring our socialist orientation and the steady growth of our entire national economy. But their consolidation and development should not be predicated on restriction and exclusion of other economic forms and other methods of management. The collective economy is an important component of the socialist economy, and we can give the collectives a free hand in running enterprises in many areas of production and construction. The individual economy now found in China is linked with socialist public ownership and differs from the individual economy linked with capitalist private ownership. It plays an irreplaceable role in expanding production, meeting the people's daily needs and providing employment. It is a necessary and valuable adjunct to the socialist economy and is subordinate to it. At present, we should try to remove obstacles in the way of the collective economy and individual economy in cities and rural towns and create conditions for their development and give them the protection of the law. We should promote individual economy particularly in those economic fields mainly based on labor services and where decentralized operation is suitable. Meanwhile, we should, on the basis of voluntary participation and mutual benefit, extensively encourage diverse and flexible forms of cooperative management and economic association among the State, collective, and individual sectors of the economy. Some small state-owned enterprises can be leased to collectives or individuals, or run by them on a contract basis. It is our long-term policy and the need of socialist development to promote diversified economic forms and various methods of operation simultaneously. This is not retrogression to the new-democratic economy of the early period of the People's Republic when the socialist public ownership was not yet predominant in town and country. Far from undermining China's socialist economic system, the new policy will help consolidate and develop it.

Marx and Engels pointed out long ago in the Manifesto of the Communist Party that with the exploitation of the world market due to the growth of capitalism, the old local and national seclusion and self-sufficiency had given place to intercourse between nations in every direction, and production and consumption in every country had become cosmopolitan in character. The productive forces including science and technology in our times are developing ever faster. Although international relations are complex and ridden with contradictions, international economic and technological ties are, generally speaking, very close, and national seclusion cannot lead to modernization. Since the Third Plenary Session of the Eleventh Central Committee, we have taken opening to the outside world to be our long-term, basic state policy, a strategic measure for accelerating socialist modernization. Practice has already yielded marked results.

We must continue to pursue flexible policies, reform our foreign trade structure in line with the principle of both arousing the enthusiasm of all quarters and developing a unified approach in our external dealings. We will work to expand economic and technological exchanges and cooperation with other countries, strive for the success of the special economic zones, and open coastal cities more fully. Using foreign funds and attracting foreign businessmen for joint ventures, cooperative management or exclusive investment in enterprises are also a necessary and beneficial complement to China's socialist economy. We must make the best use of both domestic and foreign resources and both the domestic and foreign markets, and learn both to organize domestic construction and develop foreign economic relations.

As we open to the outside world, we shall open up even more between different areas within China itself. We should smash blockades and open doors in the relations between economically more developed and less developed areas, coastal areas and interior border areas, cities and countryside, and between all trades and enterprises. We must act in conformity with the principle of making the best possible use of favorable conditions and avoiding the effects of unfavorable ones, developing diversity of forms, offering mutual benefit and achieving common progress, and strive to develop economic relations among enterprises and regions, promote appropriate exchanges of funds, equipment, technology and qualified personnel, introduce diverse forms of economic and technological cooperation and run joint economic enterprises. This will speed up the rationalization of our economic setup and of the geographical distribution of our enterprises and accelerate modernization.

IX. Promote a New Generation of Cadres and Create  
a Mighty Contingent of Managerial Personnel  
for the Socialist Economy

Reform of our economic structure and the development of our national economy badly need a large contingent of managerial and administrative personnel, and especially managers, who are both knowledgeable in modern economics and technology and imbued with a creative, innovative spirit and who are capable of bringing about a new situation in whatever they do. The point now is that our contingent of managerial personnel falls far short of the above requirements. We have large numbers of veteran comrades in this contingent who, in the long period of hard struggle, have made great contribution to our socialist economic construction. Their good work style, managerial ability and steadfastness in observing the rules of inner-Party life had an educational influence on many young and middle-aged cadres. But they are getting up in years, and we can no longer ask them to continue in arduous leading posts. Our present urgent task is to promote boldly thousands upon thousands of young and middle-aged managerial personnel and take steps to train them.

Large numbers of talented persons have come to the fore in economic construction, especially in the course of Party consolidation and the reform of the economic structure. Party committees at all levels must take pains to discover and assess them and must not be fettered by outdated ideas and conventions. They must not fault-find and demand perfection and must guard against the influence of factionalism and gossip. When we act in this manner, we can discover large numbers of excellent cadres. Of course, young and middle-aged cadres lack experience in giving leadership. But they can gain experience through tempering in practical work and will gradually do so. Under no circumstances should we use lack of experience as an excuse for holding back young cadres. We have to be analytical in our attitude to experience. Our comrades accumulated rich experience, both positive and negative, in the course of revolution and construction. This is very valuable. Generally speaking, however, all our cadres, old, middle-aged or young, are facing brand-new tasks in the new historical period and all lack the new knowledge and experience necessary for modernization. All of them will have to re-evaluate their capabilities and make new efforts to learn. It would be wrong to hang on to the outmoded and rest complacent about experience that is no longer applicable.

The Central Committee calls for completion of the reshuffling of leadership in enterprises, especially key enterprises, before the end of 1985. In addition, plans should be drawn up and effective measures taken to train fairly soon large numbers of directors (managers) who can successfully organize and direct enterprise production and operations, of chief engineers who can strengthen technical management and promote technological progress, of chief economic managers who can improve business operations for better economic results, of chief accountants who can strictly uphold financial and economic discipline, do careful budgeting and exploit new sources of revenue, and of Party secretaries who can keep to a correct political orientation and unite the workers and staff members of the enterprises. This is how to create a mighty contingent of managerial and technical cadres for the socialist economy. This contingent should consist of qualified personnel in all trades and occupations for the whole chain of enterprise management.

The Central Committee has pointed out on many occasions that in our drive for socialist modernization we must respect knowledge and talented people. We must combat all ideas and practices that belittle science and technology, the cultivation of intellectual resources and the role of intellectuals. We must take resolute action to redress cases of discrimination against intellectuals which still exist in many localities and to raise the social standing of intellectuals and improve their working and living conditions. All our reforms must lead to progress in science and technology, to greater initiative of the localities, departments, units, and individuals in making effective use of intellectual resources and must enable our vast numbers of young people as well as workers, peasants and

intellectuals, to raise their cultural and technical levels quickly. Those who have made important inventions and innovations or other outstanding contribution should be amply rewarded.

Party organizations in numerous localities and enterprises will undergo consolidation next year. Reform should be closely linked with this. Party consolidation should promote economic growth, which is an indicator of how successful it is. While carrying out the reform, we must strengthen the leadership over Party consolidation, making sure that the consolidation will not become a mere formality. The more we enliven the economy and invigorate enterprises, the more we must pay attention to combating the corrosive influence of capitalist ideas, eliminating the decadent practice of seeking personal gain by abusing one's position and authority and preventing any action that seriously harms the interest of the State and the consumers, and the more we should strengthen the building of a fine party style and sense of discipline and maintain healthy inner-Party political life. In ideological and organizational work in the new historical period, we must firmly carry out the Party's guiding principle that such work should help fulfill the general task and reach the general goal set by the Party and be closely linked with economic construction and reform of the economic structure. We should actively support cadres and the masses who are keen on reforms. When errors or deviations appear in the course of reform, apart from those seriously violating the law and discipline which must be dealt with according to law, we should adopt a policy of persuasion, criticism, and education toward the persons concerned and must not stick political labels on them. People with different views and approaches about reforms may discuss their differences. We must not divide the cadres and masses by calling some people "reformers" and others "conservatives." We should have faith in comrades who fall behind the developing situation for a time, confident that they will understand things better in the course of reform. In the past five years of rural reform, many comrades who had doubts about it have been convinced by the facts and have changed their views. The Central Committee has adhered to the principle of patient education in guiding rural reform, thereby ensuring its smooth progress. This is a valuable experience in solving ideological problems inside the Party on the question of major policies, and we should keep to this principle in the future. By citing the facts about reform, we should provide Party members and the masses with lively education in the theory and policies of the reform. This will help them realize that socialism with Chinese characteristics should be full of vitality, different from the rigid pattern of the past and fundamentally different from the capitalist system. This will deepen their understanding of scientific socialism so that they devote themselves to making reforms.

The reform of economic structure will lead to tremendous changes not only in people's economic life, but also in their mental outlook and way of life. We should build socialist civilization with both a

high material level and a high cultural and ideological level. This is our Party's unswerving principle. While trying to create a socialist economic structure full of vigor, we should work to create a cultured, healthy, and scientific way of life for the whole society that meets the requirements of expanding the modern forces of production and social progress, and eliminate backward and decadent ideas and ignorance. We should foster throughout society an active, forward-looking and enterprising attitude and overcome such forces of habit as complacency, mental sluggishness, fear of change and conventionality. Such an approach to life and such an attitude are important aspects of a socialist civilization that has a high cultural and ideological level. They give great impetus to reform of the economic structure and the building of a socialist civilization with a high material level. Comrade Mao Zedong said, "Mankind makes constant progress and nature undergoes constant change; they never remain at the same level. Therefore, man has constantly to sum up experience and go on discovering, inventing, creating, and advancing. Ideas of stagnation, pessimism, inertia and complacency are all wrong. They are wrong because they agree neither with the historical facts of social development nor with the historical facts of nature so far known to us." (See note 2.) This statement is a graphic expression of one of the fundamental points of view of the Marxist world outlook and conception of history. The Chinese communists take the constant promoting of social development and progress as their historical mission. Our Party led the masses of the people under reactionary rule in the past in making revolution to overthrow the old order. Under the socialist system with the people as masters of the country, our Party has been leading the masses in conscientiously carrying out reforms and building China into a modern, powerful socialist country with a high level of culture and democracy.

The current situation is very favorable to reform. The people are highly creative in this endeavor. By relying on their wisdom and strength and adhering to the four cardinal principles (see note 3), we will certainly succeed in our reform and fulfill the general task and reach the general goal set by the Party's Twelfth National Congress.

Other Distribution:  
Department Heads

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Note 1: V. I. Lenin, Collected Works, Eng. Ed., Progress Publishers, Moscow, 1966, Vol. 35, p. 475.

Note 2: Quoted in "Premier Zhou Enlai's Report on the Work of the Government to the First Session of the Third National People's Congress of the People's Republic of China" (December 21-22, 1964).

Note 3: This means keeping to the socialist road, upholding the dictatorship of the proletariat, upholding leadership by the Communist Party, and upholding Marxism-Leninism and Mao Zedong thought.