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[Article by the Macroeconomic Research Office of the Institute of Research on Economic Reform of China: "Macroeconomy in the Reform: Growth and Fluctuations of the National Economy"--written in May 1987; participants in research work behind this report include Song Guoqing (1345 0948 7230), Cheng Xiaonong (4453 2556 6593), Jiang Sidong (1203 2448 2767), Zhang Weiying (1728 4850 6601), Liang Tianzheng (2733 1131 1767), Huang Yongshan (7806 3057 1472), Loang Heng (2733 5899), Xia Fenglei (1115 7364 7191), and Li Shuhe (2698 7364 0735); participants in discussing part or the whole of this report include Wang Xiaoqiang (3769 1420 1730), Zhang Shaojie (1728 1421 2638), Diao Xinshen (0431 2450 3947), Xu Xiaobo (1776 4562 3134), and Cui Heming (1508 7729 7686)--passages within slant lines published in boldface]

[Text] (This article is the first part of "Macroeconomy in the Reform," a study report on macroeconomic processes and policies since 1979. Part 2: "The Distribution and Use of National Income" will be published in the next issue. For explanation of relevant data, see the Appendix to Part 2.)

I. Economic Growth and the State of the Macroeconomy

During the 1979-86 period, which was the second period of rapid national economic growth since the founding of the PRC, GNP and final product grew at the average annual rates of 9.2 percent and 9.7 percent respectively. (Footnote 1) (Net real final product equals national income minus the accumulation of circulating assets.) Compared with past data according to comparable indicators, national economic aggregates grew as rapidly as in the First 5-year Plan. (See Table 1.1)

Because of the lower population growth rate, the per capita national income and residents' consumption level grew faster than in the First 5-year Plan. Moreover, because attention was paid to using monetary policies and other means of macroeconomic regulation to stabilize and readjust the national economy, economic growth in this period was markedly more stable than in any previous period. This situation has been continuing for 8 years and is developing. This is the longest period of stable and rapid national economic growth since the founding of the PRC.

Table 1.1: Main Indicators of the State of the Macroeconomy

Indicators		1953-1957	1958-1978	1979-1986
Average annual growth rates (percent)	GNP	n.a.	n.a.	9.2
	National income	8.9	5.3	8.7
	Net real final product (a)	9.4	5.3	9.3
	Per capita net real final product	6.9	3.3	8.0
	Urban residents' consumption level	4.2	1.8	8.1
	Peasants' consumption level (b)	3.2	1.4	8.9
	General retail price index	1.0	0.4	3.9
Stability indices (c)	National income	100	39.3	185.7
	Net real final product	100	82.1	299.4
	Consumption	100	41.7	127.1
	Accumulation	100	47.6	307.5
Ratios of average annual figures	Overall fiscal deficits to national income (d)	n.c.	0.1	2.3
	Net external loans borrowed by fiscal authorities to national income	0.5	-0.5	0.3
	Balance of payments deficit to GNP	n.a.	n.a.	0.5

Notes on the table:

(a) Net real final product equals national income less the accumulation of circulating assets;

(b) Urban residents' consumption and peasants' consumption belong to personal consumption in national income;

(c) A stability index is the reciprocal of the standard deviation of the relevant annual growth rate, with the value of the index set at 100 for the 1953-57 period;

(d) Overall fiscal deficits consist of deficits plus the net intake of loans;

n.a. means not available; n.c. means not comparable.

In the course of those 8 years of economic growth, there were fiscal deficits in consecutive years, definite amounts of balance of payments deficits (net capital inflow), and inflation. The levels of fiscal deficits and balance of payments deficits were roughly comparable to those in the First 5-year Plan. (Footnote 2) (These levels of deficits refer to ratios of the relevant deficits to GNP or national income.) However, the average annual rate of increase in the price level was markedly higher than in any previous period. This became a major issue which has been the focus of attention in China.

From a certain viewpoint, the coexistence of macroeconomic disequilibrium and stable, rapid growth constitutes a contradiction that calls for explanation. However, the current problem does not lie in explaining whether the economic boom over the past 8 years was a false one spurred by inflated demand or a real one accompanied by some side effects. What should be studied first is what macroeconomic policies can be adopted and what their effects will be, against a background characterized by a rapidly growing population of people of working age, an excessive amount of work in developing agriculture having been left undone in the past, and so on. Discussing the question of evaluation alone at the expense of what should be done is meaningless. In particular, in answering questions like why the national economy was not readjusted as in previous periods so that rises in the price level could be quickly curbed and fiscal deficits could be quickly eliminated, we must pay attention to the effects of changes in the macroeconomic equilibrium attaining mechanism and increases in the extent of use of credit in the national economy. These have naturally become basic questions in macroeconomic analysis. Only if they are understood can one more accurately grasp today's macroeconomic conditions and know the possible policy options and their effects.

II. Growth in Investment

A major aspect of the national economic growth since 1979 has been a sustained high level of investment, particularly investment in fixed assets. Compared with 1978 figures, in 1986 the proportion of total investment in GNP was slightly higher and the proportion of fixed-assets investment in GNP was 3.9 percentage points higher. (Footnote 3) (Investment in fixed assets is calculated on the basis of realized investment. The amount of investment realized is not identical to investment expenditure. Differences in their scopes of calculation and statistical discrepancies together constitute a statistical error in GNP computation. See Appendix for details.) When the nominal value is corrected by using the GNP deflator, it is found that between 1979 and 1986 real investment in fixed assets grew at an average annual rate of 10.9 percent, faster than any other major component of GNP. To correctly evaluate this rapid growth, we should first analyze the resources available for effecting fixed-assets investment.

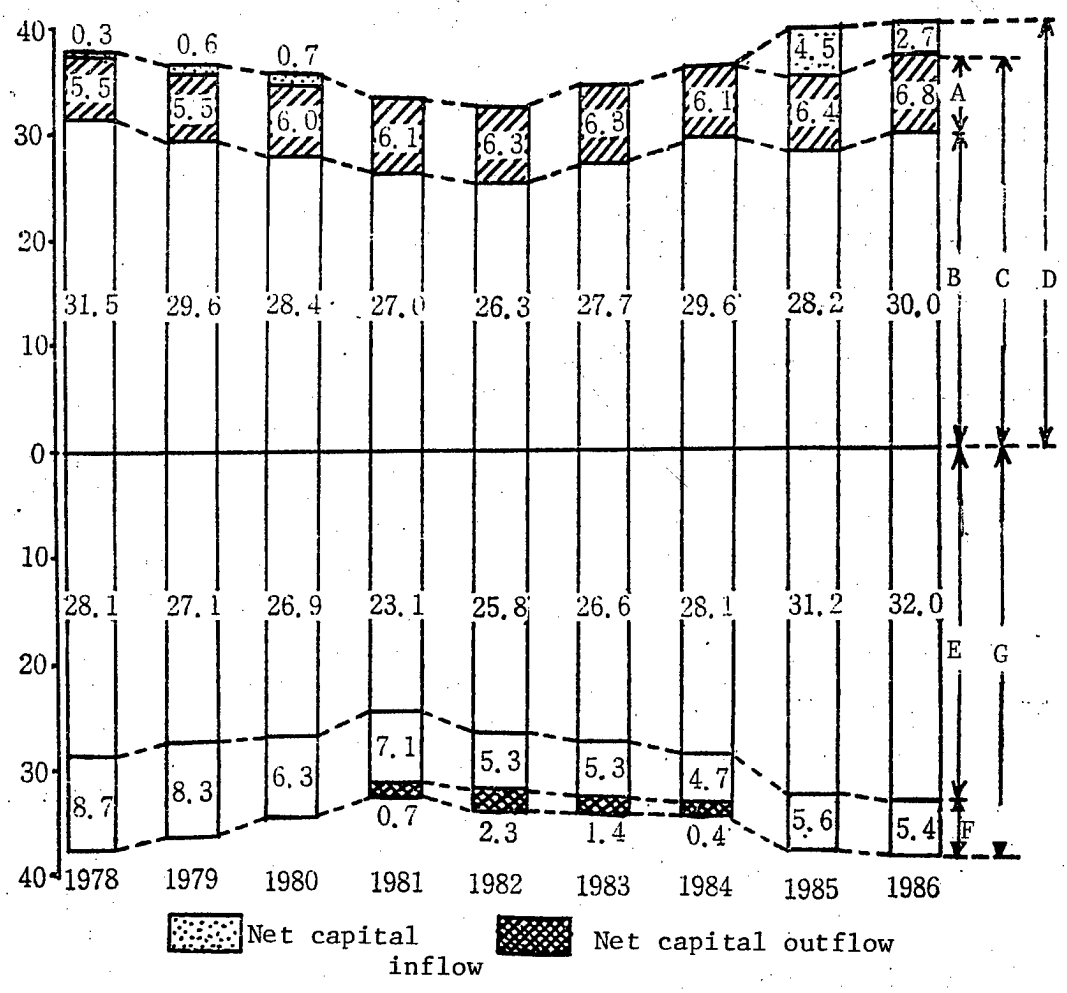
The proportion of disposable national income consumed was 67.8 percent in 1986, 1 percentage point higher than the 66.8 percent figure for 1978. An increase in consumption means a decrease in national savings. Thus, the increase in investment in fixed assets since 1979 did not involve a corresponding sacrifice of consumption. Because of the faster growth of depreciation, the ratio of national savings to GNP was 1.5 percentage points lower in 1986 than in 1978.

Since 1979, depreciation of fixed assets has been growing quickly. Its proportion in GNP was 1.3 percentage points higher in 1986 than in 1978. National savings plus depreciation equal gross savings, which correspond to total investment. Because of the fall in the proportion of national savings and the rise in that of depreciation, in 1986 the proportion of gross national savings in GNP remained at the 1978 level (being 0.2 percentage points lower).

Net capital inflow, which is the foreign resources available for contributing to total investment, fluctuated substantially over the past 8 years. (Footnote 4) (Net capital inflow includes two things: directly utilized foreign capital and the decrease in international financial assets like foreign exchange; that is, it is the deficit in the current account of the balance of payments.) There was a small amount of net capital inflow between 1978 and 1980. Drastic curtailment of investment resulted in a net capital outflow between 1981 and the first half of 1984. Since the fourth quarter of 1984, there has been a hefty net capital inflow (mainly through the use of foreign exchange reserves) because aggregate demand has been increasing again. In 1986, the ratio of net capital inflow to GNP was lower than in 1985 but 2.4 percentage points higher than in 1978.

However, the most important factor affecting investment in fixed assets was the fall in the proportion of circulating-assets investment in GNP. In 1986, this proportion was 3.3 percentage points lower than in 1978, so that investment in fixed assets could be greater. The fall in this proportion was a major fruit of the economic system reform and a reflection of improved efficiency in the national economy. In social total net investment, the proportion of fixed-assets investment was 37.7 percent during the First 5-year Plan and was around 30 percent in other periods. (Footnote 5) (Net investment equals total investment minus depreciation. In the ZHONGGUO TONGJI NIANJIAN [Statistical Yearbook of China], it is the accumulation part of national income. However, in the calculation of total investment since 1978, this report includes in investment the spending on items like geological prospecting, and so on, which were excluded from investment in ZHONGGUO TONGJI NIANJIAN.) Since 1978, with the institution of the system whereby enterprises retain part of their profits, and with the reform of the commercial system, the enterprises' profit motive has been strengthened, so that the industrial enterprises, in making production decisions, have begun to consider market demand and pay attention to reducing the stocking of materials and raw materials, and commercial enterprises have drastically reduced their inventories. The fall in the proportion of inventory investment has caused final product to increase faster than GNP.

Diagram 1.1: Resources available for investment and components of investment (percent of GNP)



Key:

A. Depreciation
B. National savings
C. Gross national savings
D. Resources available for total investment
E. Fixed-assets investment
F. Inventory investment
G. Total realized investment

(Note on diagram: The difference between the sum of resources available for investment and the sum of various components of investment equals the discrepancy in Table 2 in the Appendix.)

Overall, in 1986, compared with 1978, the proportion of gross national savings in GNP was 0.2 percentage points lower, the proportion of net capital inflow was 2.4 percentage points higher, and the proportion of circulating-assets investment was 3.3 percentage points lower, so that the proportion of resources available for fixed-assets investment in GNP was 5.5 percentage points higher. (See Diagram 1.1) (Footnote 6) (Resources available for fixed-assets investment refers to gross national savings plus net capital inflow minus circulating-assets investment expenditure. The proportion of resources available for fixed-assets investment rose by 5.5 percentage points, but the proportion of realized investment rose only 3.9 percentage points; this was due to differences in the scope of calculation of these two proportions and due to statistical error.) Because of these three things--the rising proportion of depreciation, the rising proportion of net capital inflow, and the falling proportion of circulating-assets investment--in 1986 the amount of resources available for fixed-assets investment was 68.5 billion yuan greater than in 1978, and this equalled 21.4 percent of all resources available for fixed-assets investment in 1986.

Therefore, an increase in fixed-assets investment does not necessarily mean an increase in the overall (annual) scale of investment. If depreciation increases, greater fixed-assets investment is necessary for ensuring a normal level of net investment. If net capital inflow is backed by real material resources, then the investment corresponding to net capital inflow will not cause price rises. A fall (which refers to a falling trend rather than a fall as part of short-term fluctuations) in the proportion of circulating-assets investment is a positive factor. Its result is that fixed-assets investment can, and indeed should, increase to some extent.

The proportion of national income used for accumulation is calculated on the basis of net investment and excludes depreciation. However, the portion of national income spent and the portion used for accumulation include net capital inflow, and they can hardly reflect changes in the proportion of national savings. Moreover, developing tertiary industries (just as developing the production of consumer goods) serves to satisfy social demand and requires investment. However, national income statistics include investment in, but not the output value of, some tertiary industries, so that it is difficult to compare investment with national income. When the proportion of tertiary production rapidly increases, it is normal and reasonable for investment in tertiary industries to grow faster than national income, but only an increase in the rate of accumulation appears under the material product accounting system (MPS). Therefore, the proportion of national income used for accumulation cannot indicate whether investment is too great or small.

Overall, the fact that fixed-assets investment grows faster than GNP or national income does not necessarily mean that investment is displacing consumption or aggregate demand is too great. Fixed-assets investment can grow at a faster rate either when the consumption rate is falling and/or aggregate demand is too great, or when the opposite occurs.

III. Employment Growth and Investment Demand

/Employment growth and rises in labor productivity:/

Roughly speaking, changes in the average annual rate of growth in the social total number of workers have formed two peaks and a trough since the founding of the PRC. The second peak occurred in the 1979-85 period. (See Table 1.2)

Table 1.2: Average annual rates of growth in the number of workers and labor productivity:

Period	Social total number of workers	Average national income created by each worker	Number of workers in industry	Industrial labor productivity	Agricultural labor productivity
1953-57	2.8	5.9	n.c.	n.c.	n.c.
1958-65	2.4	0.8	n.c.	n.c.	n.c.
1966-70	3.7	4.4	n.c.	n.c.	n.c.
1971-78	1.8	3.6	n.c.	n.c.	n.c.
1957-78	2.6	3.3	5.8	3.0	1.1
1979-85	3.1	5.5	6.6	4.3	5.8

(Note on table: The number of people employed by industrial enterprises operated by villages or lower authorities is deducted from the agricultural sector and added to the industrial sector. Industrial labor productivity and agricultural labor productivity are calculated on the basis of total output value. N.c. means not comparable.)

These changes were mainly caused by the change in the birth rate some 17 or 18 years ago. The second peak in births began to appear in 1962. The people born during that period have been entering the working age groups since 1979, so that since 1979 the number of people of working age has been growing faster than in previous periods.

Another important fact is the slower rate of growth in the number of workers in the agricultural sector. On average, this growth rate was 0.5 percentage points lower in the 1979-85 period than in the 1953-78 period. Consequently, the increase in the number of agricultural workers was 11.3 million less.

The faster growth in the social total number of workers, coupled with the slower growth in the number of agricultural workers, caused the number of nonagricultural workers to grow at an average annual rate of 6.7 percent between 1979 and 1985, in contrast to the rate of 4.9 percent for the preceding 20 years or more.

Among labor productivity indicators, agricultural labor productivity changed most markedly. (See Table 1.2) This change caused the output of agricultural products in that period to grow markedly faster and the input of resources for agricultural production to grow more slowly than in previous periods. In these two ways, our rural economic reform greatly contributed to national economic growth.

Changes in the rate of growth of industrial labor productivity were not so conspicuous as in agriculture. The average rate for the 1979-85 period was only 1.3 percentage points higher than for the previous 26 years. The average annual increase in labor productivity was 11.2 percent for urban collective industrial enterprises (including other categories of industrial enterprises), 7.5 percent for rural industrial enterprises, and 4.4 percent, which is the lowest figure, for enterprises under ownership by the whole people.

Calculated in connection with GNP, between 1979 and 1985 labor productivity for all society increased at an average annual rate of 6.0 percent. This was apparently a very high rate. The increase in agricultural labor productivity was an important reason for this.

/The pressure of heavy demand for employment opportunities; investment demand:/

The rapid growth in the number of people of working age and the increase in agricultural labor productivity have caused a pressure of heavy demand for employment opportunities, which in turn have caused investment demand to increase. This is a major reason for the strong impulse of local governments, enterprises, and institutions to undertake investment.

This impulse is to some degree rational. When employment growth quickens, the level of workers' equipment (Footnote 7) (the fixed assets and land group of resources possessed by each worker on the average) will grow at a falling rate if a higher rate of growth of investment is not maintained. Other things remaining unchanged, labor productivity will then grow at a falling rate. Under the condition of regulation by market mechanism, the quicker growth of labor supply will cause a relative fall in the wage level and an increase in investment demand, so that investment will grow faster. Currently, because of the irrationality or absence of factor prices, problems of the wage system, and so on, the enterprises cannot automatically attain equilibrium in the demand for and supply of labor and investment, and many enterprises continue to develop toward a more capital-intensive mode of production, so that over the entire society investment demand and the pressure of heavy demand for employment opportunities have been increasing.

Considered simplistically, a fixed assets growth rate of over 9 percent is much higher than a 3 percent employment growth rate, and it seems that maintaining full employment should not be a problem. However, this ignores the problem that the land group of resources cannot increase because they cannot be regenerated. In a country like China with a large population and inadequate farmland, land resources are very important to national economic development. According to a rough estimate based on marginal productivity, the value of China's resources which cannot be regenerated roughly equals the value of fixed assets which can be. If fixed assets increase at an annual rate of 9 percent, then the combined annual growth rate for assets which can be regenerated and those which cannot be will not exceed 5 percent. When employment grows at 3 percent a year, though the average amount of fixed assets possessed by a worker will grow at 6 percent, the average amount of all assets possessed by a worker will grow at less than 2 percent. The growth rate may even be lower if investment in residential housing is deducted.

Considering the problem from another angle gives the same result. Even if the number of agricultural workers remains constant, the level of workers' equipment will also fall. In 1985, the social total number of workers was 2.7 times the number of nonagricultural workers. Given that the social total number of workers increased at 3.0 percent but the number of agricultural workers remained unchanged, the number of workers in nonagricultural sectors would increase at 8.0 percent. In comparison, a fixed assets growth rate of around 9 percent could hardly be said to be high. Although at present the rate of increase in fixed-assets investment exceeds 10 percent, there is an average time lag of several years between the undertaking of investment and the delivery of fixed assets for actual use. Consequently, the shortage of employment opportunities and the problem of excessive investment demand will last for some time.

Therefore, absorbing foreign capital is now an important matter. When the number of people of working age increases very quickly, absorbing foreign capital can help alleviate the pressure of heavy demand for employment opportunities. In 1986, the net capital inflow was around 25 billion yuan, which can create employment for a considerable number of workers when used for investment. In particular, a net capital inflow can increase the import of deficient resources and is thus even more advantageous to employment and economic growth. Generally speaking, absorbing foreign capital will alleviate the pressure of heavy demand for employment opportunities, while repaying debtswill increase this pressure. However, China's birth rate has been moving along an overall trend of falling year after year. By 1976, it had fallen below 2 percent. Moreover, the growth in the number of people retiring from the working age groups has been quickening. Therefore, in the future the growth in the number of people of working age will slow down from year to year. It should be mentioned that in 1985 and 1986, which correspond to a trough in the agricultural cycle, a large scale transfer occurred among peasants, resulting in a very large investment demand. This has been a special situation occurring amid fluctuations of the national economy. After the mid-1990's, the rate of growth of employment in nonagricultural

sectors will fall to a considerably low level. Then, the rate of growth of fixed assets can be somewhat lowered. However, several years before this, that is, in the early 1990's, the rate of investment can be steadily lowered and foreign debts can be repaid.

In certain periods of national economic development, raising definite quantities of funds for economic construction by borrowing from domestic or foreign sources is a means of promoting economic development. During the First 5-year Plan, debts were raised from domestic and foreign sources to make up for shortfalls in the state's funds and to build a number of key projects vital to the national economy. This enabled a good foundation to be laid for subsequent economic development. Today the number of people of working age is growing rather quickly, and it is reasonable to borrow a definite amount of funds for construction.

IV. Growth and Cycles in Agriculture

/Agricultural growth and effects of increases in the prices of agricultural products:/

The quickened growth of agricultural production is a major aspect of the rapid national economic growth since 1979, while increases in the prices of agricultural products is a major cause of the rapid growth of agricultural production. In the first year of the First 5-year Plan, the monopolistic purchase and marketing of grain by the state was instituted. The prices of agricultural products were controlled in a situation of rapid economic growth, and the rates of growth of peasants' income and consumption were made much lower than the national economic growth rate and also lower than the rates of growth of urban residents' income and consumption. (See Table 1.1) Thus, agriculture was made to support industry. However, the monopolistic state purchase of agricultural products at low prices can be said to create a hidden liability to agriculture. As a result of this liability, the prices of agricultural products have continually risen and peasants' income has increased rapidly since 1979, and these are the most important reasons, which are related to costs and demand, for rises in the general price level.

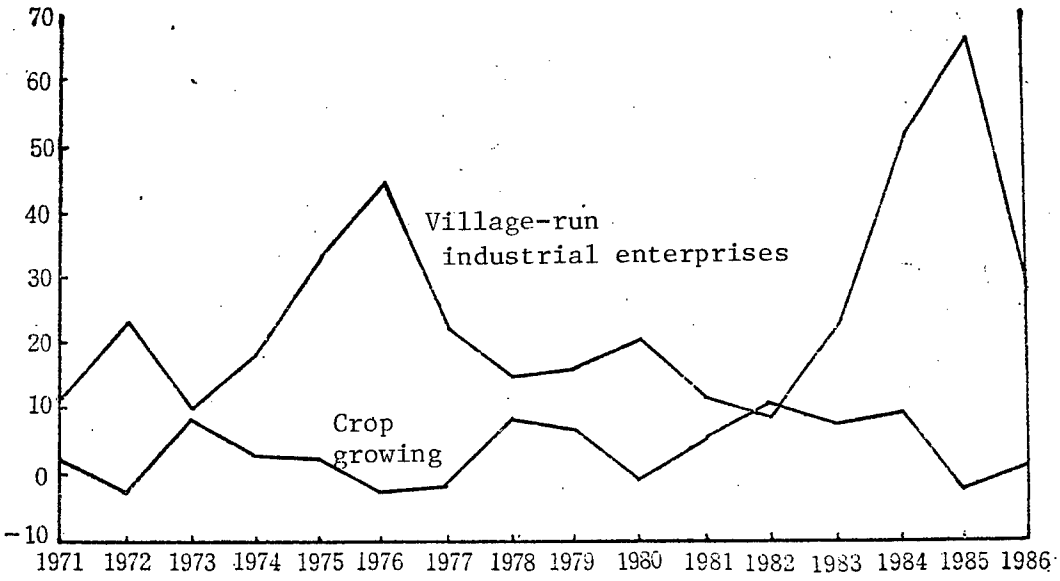
In an initial phase of industrialization, it is very important to have agriculture support industry. However, the method of monopolistic state purchase and marketing of agricultural products at low prices has serious consequences and cannot continue for long. Saying it creates a liability means that ultimately what is owed must be repaid. In analyzing the overly rapid growth of demand and sustained rises of the price level since 1979, we must pay attention to this problem.

Because the rapid growth of agricultural production since 1979 involved repaying what was owed before, it could not be sustained. By 1983, when a glut of grain and cotton appeared, the supernormal flourishing of agriculture should have ended. However, a number of other reasons made the rapid growth of agriculture continue into 1984, and caused the great decrease in the output of grain and cotton in 1985. This change must be explained from the viewpoint of the agricultural cycle.

/Cycles in agricultural production:/

The agricultural cycle is mainly caused by cycles in grain production, which are due to the great effect of market grain prices on consumption in grain production. Under the original system of planned crop growing and monopolistic state purchase and marketing of agricultural products, state purchase prices were far lower than market prices, and the quantities purchased were relatively stable. Thus, in grain production, marginal revenue has been the market price of grain, not the state price. The cost of consumption of grain in the countryside is also the market grain price. When market grain prices rise, the input of resources for grain production increases at the expense of of the input of resources for other occupations, and vice versa. Because grain production is the main occupation in crop growing, crop growing is also marked by these fluctuations. Fluctuations in output caused by changes in the ratio of input of resources are very clearly reflected in the rate of growth of crop growing against the rate of increase of village-run industrial enterprises. These two rates change in opposite directions with a high degree of symmetry.

Diagram 1.2: Rates of increase of crop growing and village-run industrial enterprises (percent)



The rapid growth of crop growing in 1982 and 1983 was a normal result of cyclical fluctuations. Because of the institution of the household contractual responsibility system and the raising of the state purchase prices of agricultural products, during those 2 years agriculture grew faster than in previous periods belonging to the similar phase of various cycles. According to the pattern of previous cycles, market grain prices should have plummeted in 1983 and grain production should have decreased in 1984. However, market grain prices had been falling rapidly since 1979, and with the raising of state prices (prices for above-quota purchases),

state prices and market prices quickly converged and became nearly equal in 1983. At that time, the state carried out the policy of unrestricted state purchases. In 1983, the increase in the quantity of grain purchased from society compared with the previous year amounted to 28.5 million tons or 85 percent of that year's increase in grain output. Coupled with the peasants' tendency to store grain, this prevented the fall in market grain prices and gave a wrong signal to the peasants to continue their output expansion. In 1984, with the bumper harvests of grain and cotton, the state could no longer afford to purchase too much, so that market grain prices fell. Thus, the great decrease in agricultural production in 1985 was inevitable.

/Establish the view that agricultural production is production of commodities:/

It should be mentioned that that sort of parochial agricultural mentality which overemphasizes the particularity of grain production and demand for grain, coupled with the agricultural policies formulated on that basis, were mainly to blame for the increase in aggregate demand in 1984. (The rapid growth of aggregate demand actually started earlier.) The overly rapid increase in peasants' income was the most important reason for the accelerating growth in aggregate demand before the end of 1984.

Over the past 8 years since 1979, other national economic sectors have become more stable than before, but agricultural production has been less stable than in the 1970's. The cause is the further bumper harvests and glut of agricultural products in 1984, not the decreased output of 1985. It was the glut that led to output reduction. On the basis of production of commodities, if an excess of an occupation's output over its equilibrium output is to be sustained, huge subsidies are necessary. Under China's current condition, granting huge subsidies to agriculture is impossible. Therefore, today's excessively good harvests will necessarily lead to tomorrow's excessive decrease in output. The desire for quickening agricultural development will only bring about greater fluctuations in agricultural production.

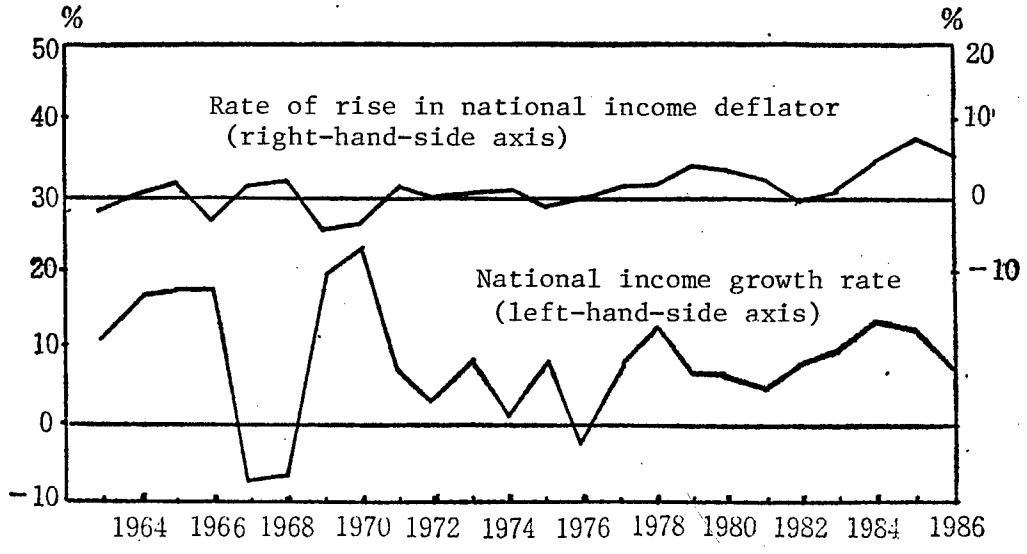
Establishing the view that agricultural production is production of commodities means that one should consider the need to invest resources in agricultural production and to spend money in purchasing agricultural products. The decrease in output in 1985 and the low output in 1986 were normal phenomena in the production of commodities. Up to the present agricultural policies have been passively reacting to movements of the agricultural cycle and working to aggravate agricultural fluctuations. Because regulation by market mechanism is playing a role in agricultural production, if the government practices a bit of "governing by doing nothing against natural developments" in the short-term regulation of agricultural production, the effects will be better.

V. Fluctuations in Industrial Production and the Problem of Money Supply

/The nature of economic fluctuations and the meaning of demand:/

Before 1979, the leading causes of national economic fluctuations were related to the supply side. Agricultural fluctuations and changes in the political situation were two basic causes of fluctuations of the entire national economy. Relatively speaking, the effects of demand changes on the national economy were less important. When certain supply-side factors changed and caused economic fluctuations, prices would rise if the national income growth rate was relatively low, and vice versa. (Footnote 8) (Here prices refer to the national income deflator.) Since 1979, things have changed and the magnitude of demand is now the main factor determining short-term fluctuations of the national economy. Under the condition that demand changes play the leading role in short-term economic fluctuations, quicker price rises correspond to quicker output growth (but with price changes lagging behind). When demand is excessive, output increases, and then prices rise (or rise faster than before). Conversely, when demand is relatively reduced, output growth slows down, and then prices fall (or rise more slowly). Diagram 1.3 can roughly explain some pertinent questions.

Diagram 1.3: National income growth rate and rate of rise in national income deflator

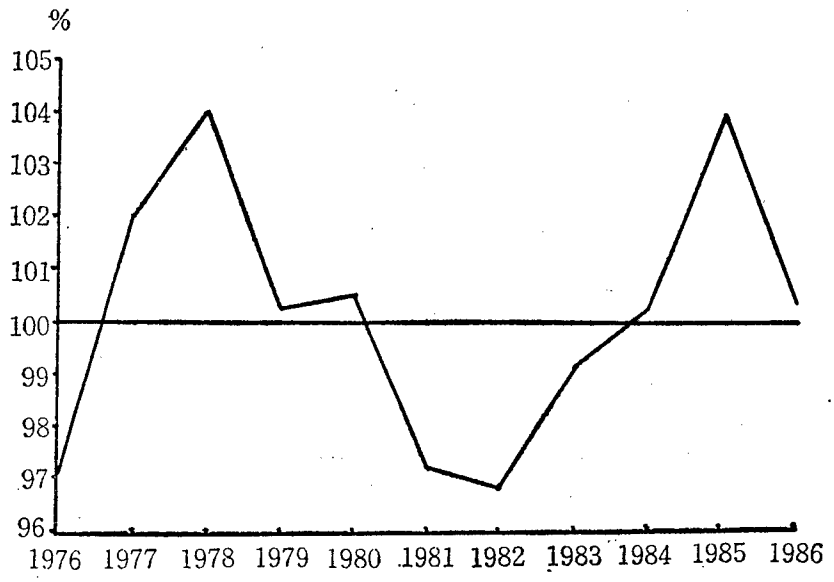


Although everybody similarly holds that in 1984 the excessive demand caused accelerated industrial growth, there are different views on the reasons for the plummeting of the industrial output growth rate since the 2d quarter of 1985. It is highly necessary to more deeply analyze this.

/The level and fluctuations of industrial output:/

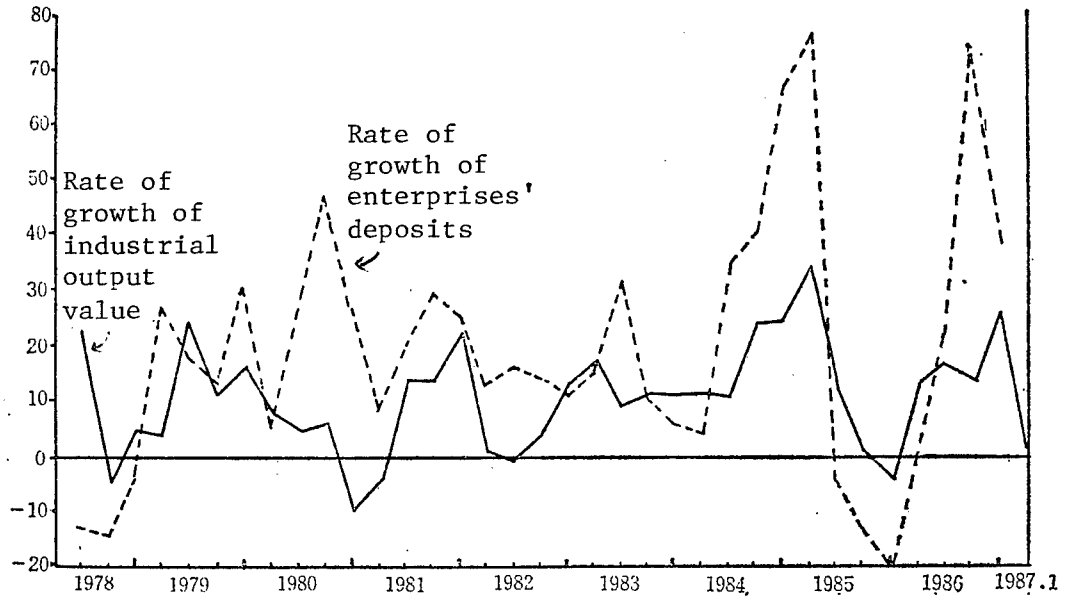
Judging whether production activities are overheated or depressed by the growth rate is apparently problematic. The basis for assessing the situation of production activities should be the potential output. (Footnote 9) (Potential output refers to the output attainable under the condition that productive capacity is utilized normally and the demand for and supply of deficient resources are in equilibrium. It excludes those categories of "productive capacity" which are "suppressed by the system" or "basically unusable." Normal utilization refers to normal use under a specific system and various other constraints. Strictly speaking, the existence of some productive capacity not subjected to the constraint of any system is unimaginable, and it is impossible to have some productive capacity which is unrelated to any products. Therefore, absolutely redundant or basically unusable machinery and equipment do not constitute any productive capacity.) Our national potential output value (excluding that generated by village-run industrial enterprises--this applies to all subsequent passages) can be estimated by considering several main factors: the original value of all industrial fixed assets in China, the national power generating capacity, and the national iron and steel production capacity. The ratio of actual output value to potential output value may be called the relative output level (or output level, which is the term used below). An output level exceeding 100 percent indicates overheating, the opposite of which being under capacity production. Diagram 1.4 shows the changes in industrial output level since 1976, calculated according to the method mentioned above.

Diagram 1.4: Industrial output level



In the absence of factors like short-term political changes, the condition of resources (under the constraint of a given system) determines potential output, while the relative condition of demand determines the output level. However, an excess of output level over 100 percent caused by increased demand can only be a short-term situation and cannot persist for long. The overheating of industrial production activities in 1985 and the relatively low industrial output level in 1986 resulted from a declining demand growth rate. In 1986, stocks of deficient resources like steel products greatly increased, the utilization rate of power generating equipment was lower than in the 2 preceding years, and shortages in the transportation sector were less serious than in the past.

Diagram 1.5: Rates of growth, compared with the preceding quarter, of industrial output value and enterprises' deposits (converted into annual rates)



(Note on diagram: Output value and deposits are seasonally adjusted figures.)

The situation is even clearer when examined on a quarterly basis. Since 1979, there have been three minor recessions in industrial production. (See Diagram 1.5) (Footnote 10) (A recession in industrial production refers to a decrease in seasonally adjusted industrial output value compared with the previous quarter. Comparing the growth rate of 2 consecutive quarters differs from comparing the growth rates for the same quarter of 2 consecutive years. The former can better reflect output changes between consecutive quarters.) The first was the recession between the 4th quarter of 1980 and the 1st quarter of 1981, caused by a curtailing of investment in 1979 and 1980. The second was the mild

recession of the 2d quarter of 1982, caused by the curtailing again of investment in 1981. The third was the recession in the 4th quarter of 1985. The industrial output value growth rate has been relatively closely related to the rate of growth of enterprises' deposits, at least since 1984. (Footnote 11) (Industrial output value and enterprises' deposits are two indicators differing in scope. The latter include also deposits of state agricultural units and urban collective enterprises. Here only a rough comparison is possible.) Although enterprises' deposits do not directly determine aggregate demand, there is a strong correlation between them. The quantity of enterprises' deposits not only determines the demand for intermediate products, but also reflects the enterprises' expectations about consumption and investment demands (investment refers to fixed-assets investment). In 1984, consumption demand and investment demand increased quickly, many enterprises made preparations for increasing output, and the demand for circulating-fund loans increased. Thus, circulating-fund loans abruptly increased in the 4th quarter, both because the banks relaxed control and because the enterprises' demand for loans increased. Since the 2d quarter of 1985, the granting of circulating-fund loans was restricted, so that the industrial output growth rate plummeted, until recession occurred in the 4th quarter. If consumption demand and investment demand continued to rise quickly, decreasing circulating-fund loans and output would certainly have led to drastic decreases in the stocking of deficient resources and consumer goods and quicker rises of the price level. However, since the 3d quarter of 1985, stocks of general commodities, particularly deficient resources, gradually increased, and the hitherto soaring market prices of deficient resources like steel products began to stabilize. This shows that the growth of aggregate demand began to slow down. At the end of 1985, some people held that consumption demand and investment demand were still growing rapidly, but the decrease in circulating-fund loans slowed down the growth of industrial output. Obviously, this argument cannot explain the abovementioned series of events. It is precisely with this argument in mind that we claim that the plummeting of the industrial output growth rate was caused by deficient demand. (However, our view requires further explanation.)

Nevertheless, changes in the demand for intermediate products and the demand for final products are not in complete agreement. If the demand for final products is stable, changes in the enterprises' current deposits caused by the easing or tightening of credit for use as circulating funds can still cause changes in the output level, but the elasticity will be limited. If the demand for final products is weak but circulating-fund loans are easy to obtain, the enterprises may increase the output of products for stocking, but this will stop when a certain extent is reached. This was precisely what happened in 1986. Conversely, if the demand for final products is hefty but the supply of circulating-fund loans is inadequate, the enterprises can still alleviate or resolve the problem by various methods. Generally speaking, it is difficult to control circulating-fund loans under this condition.

/On the process and speed of contraction:/

It is difficult to envision that when aggregate demand has expanded a normal rate of growth of aggregate demand can be quickly restored. Even if this is possible, because of the effects of production units' and consumers' expectations, output will decrease first, but it is difficult for the inflation rate to fall quickly. Actually, the inflation rate will even rise in the initial stage of contraction. If this is negated and the rate of growth of demand is quickly reduced, serious problems will occur. For example, if nominal wages increase at a normal rate appropriate to an inflation-free situation, real wages will grow at a very low or even negative rate. This will be a drastic departure from the rate of increase of real wages appropriate to a time of inflation. It will decrease the input of effective labor and seriously affect production, and may even lead to a major recession. Therefore, to effect a steady contraction, it is necessary in the first place to maintain a slow decline of the output growth rate. It is most desirable to prevent a trough like the one which appeared in 1985. (See Diagram 1.5) This calls for a gradual lowering of the rate of growth of aggregate demand. If the inflation rate is high, the process of contraction must last longer to ensure that output will be basically stable. Moreover, throughout the process, prices should be rising, though at a gradually declining rate. In contrast to this ideal contraction process, the contraction in the 2d quarter of 1985 was apparently too abrupt. It is precisely in this sense that aggregate demand was said to be deficient. If the initial situation is disregarded and the situation of 1985 is viewed in a static way, it is perfectly certain that aggregate demand was excessive. Pinpointing the deficiency of aggregate demand in the contraction process never means that aggregate demand should be accelerated again. It only means that the speed of contraction should be somewhat relaxed. Therefore, it does not preclude the continuing of contraction at all.

Overall, since 1985, the growth in money supply, total wages, and a series of other similar indicators has been gradually slowing down. Obviously, this reflects a process of sustained contraction. However, if one disregards what happened at the end of 1984 and views the state of the macroeconomy during this period in a static way, one will only notice that money supply and aggregate demand are growing faster than constant-price output, the price level is still rising, and so on, and think that the national economy is still undergoing expansion. Our explanation of these complexities shows that while it is undoubtedly correct to think that contraction should continue it is incorrect to think that drastic deflation measures are thus necessary for stabilizing the national economy.

/9604
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DISTRIBUTION AND UTILIZATION OF NATIONAL INCOME DISCUSSED

Beijing JINGJI YANJIU in Chinese No 8, 20 Aug 87 pp 16-28

[Article by the Macroeconomic Research Office of the Institute of Reform of Economic System: "Macroeconomy in China's Reform: Distribution and Utilization of National Income--passages within slantlines published in boldface]

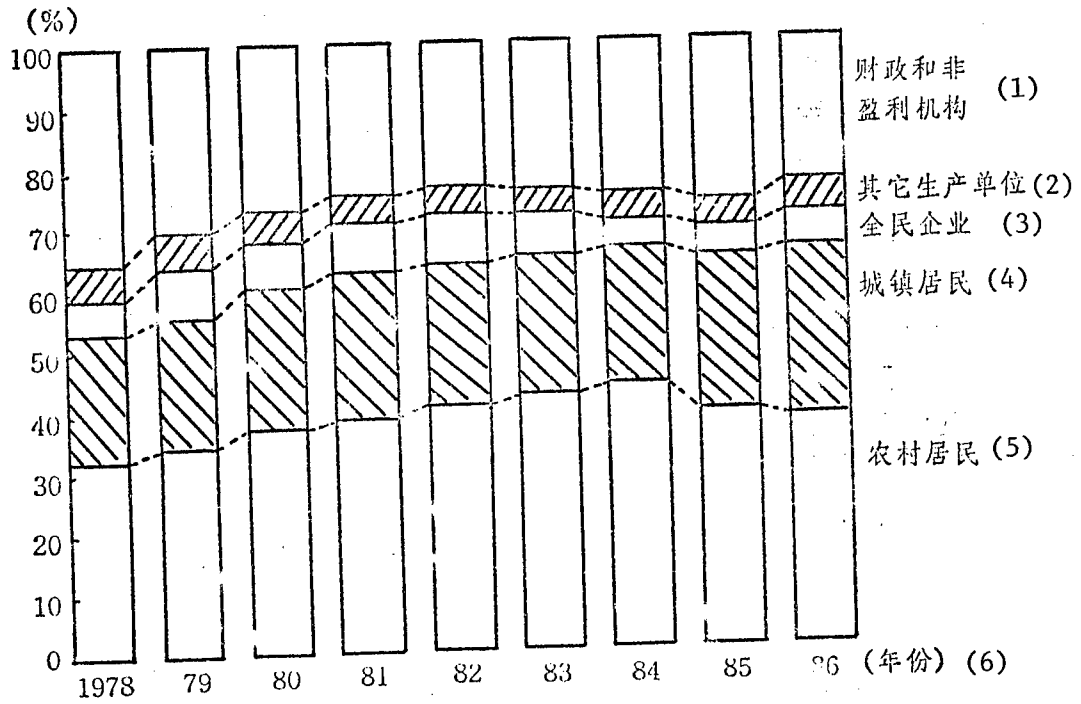
[Text] I Distribution of Income Subject to the Disposal of the Nation

/Basic Pattern of the Distribution of Income/

Since 1979, noticeable changes have taken place in the distribution ratios of income subject to the disposal of the nation (Footnote 1) (Income subject to the disposal of the nation equals net value of national product plus net transferred income from abroad) between the residents, government (finance department), production units and non-profit-making organizations (Footnote 2) (Non-profit-making organizations constitute a fictitious or suppositional economic department; its activities include the enterprises' and business units' self-managed services to life's amenities. This department's end income comes from transferred income, there being no savings and the expenses for end consumption are equivalent to end income). This has brought about a series of consequences which are rich in meaning.

Compared with 1978, in 1986 the proportion of the residents' end earnings (Footnote 3) (The end income (earnings) of economic departments consists of income which can be used on consumption and savings, while the end income of production units is synonymous with savings) increased by 117 percent (Footnote 4) (In computing the income of the various departments no re-estimation of the value of their financial assets is made), forming the basic content of the changes in the basic pattern of income distribution since 1979. Against this, the proportion of the end income of government departments dropped by 10.1 percent, that of the non-profit-making organizations showed an increase while that of the urban and rural production units dropped slightly. (See Diagram 2.1 below)

Diagram 2.1 Distribution Composition of Nation's Disposable Income (Percentages of various departments' end income out of the nation's disposable income):



Notations:

(1) Finance department and non-profit-making organizations
(2) Other production units
(3) Enterprises owned by the whole people
(4) City and town residents
(5) Rural residents
(6) Year

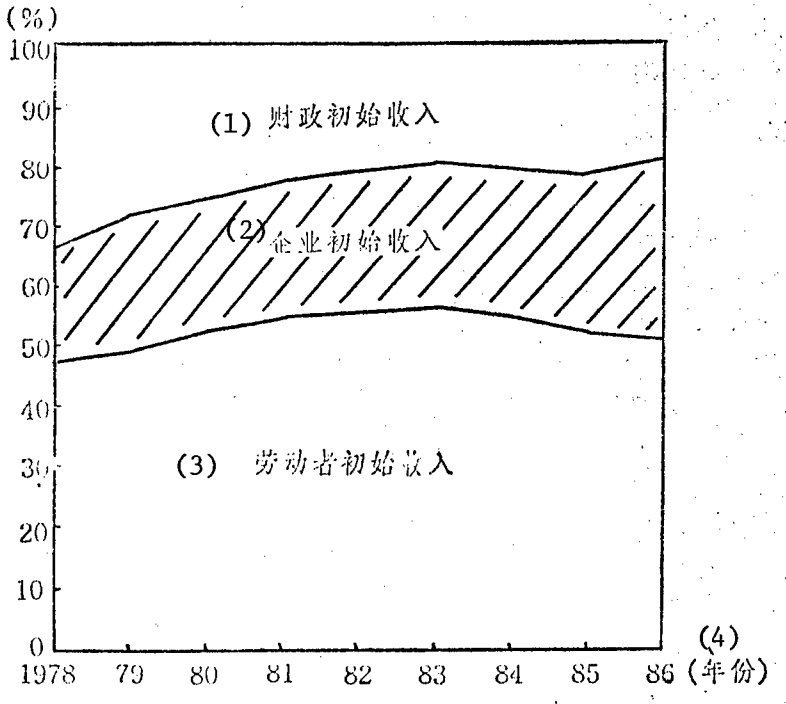
Seen as a whole, the changes in the distribution composition of income principally occurred in the 2 years, 1979 and 1980. During these 2 years, there was a large-scale rise in the proportion of the residents' earnings. Beginning from 1981, the changes in the distribution composition slowed down but the basic trend still showed a rise in the proportion of the residents' earnings. It was only in the years 1985 and 1986 that changes developed when the proportion of the residents' earnings did not exceed the 1984 level and the distribution composition of the income subject to the disposal of the nation became stabilized.

In the first distribution (Footnote 5) (The object of the first or initial distribution is the net value of the national product. The various kinds of taxes, including the enterprises' transferred payments to the finance department

include only the transfer of non-taxes such as the energy and communications funds. Following income transfer, that is, redistribution, income in first distribution forms end or final income (to the grow volume is added the net transferred income from overseas)), the ratio of the residents' earnings or income if smaller than the proportion of the end or final earnings or income obtained after the redistribution. That is to say: in the transfer of the various kinds of income, the residents obtain net transferred income from the two sides namely the enterprises business units and the finance department.

During the years 1978 to 1984, the ratio occupied by the residents' net transferred income in the end income was fairly stable, being generally between 13 and 14 percent. During this period, the proportion of the residents' end or final earnings and that of their initial earnings increased at the same pace. In the 2 years of 1985 and 1986, the proportion of the residents' first earnings dropped in comparison with 1984, but the transferred income obtained by the enterprises and business units increased rapidly. (Footnote 6) (Due to the limitations in the statistical figures, in the net transferred income received by the residents are included a portion of the income of individual workers in cities and towns and the income of staff members and workers from sparetime work). Granting via the redistribution route of various forms of bonuses and subsidies by enterprises and business units was an important cause of the rapid increase in the last 2 years in the income of residents in the cities and towns. The growth of this kind of redistribution on the one hand indicates the existence of problems in the control of salaries and wages and on the other hand carries the significance of compensation for currency inflation. The problems of this kind of income are more complex in comparison with formal salaries and wages and bonuses.

Diagram 2.2 Initial Distribution Ratios of the Net Value of the National Product:



Notations: [See Diagram 2.2 on previous page]

(1) Initial income of finance department
(2) Initial income of enterprises
(3) Initial income of workers
(4) Year

/Changes in the Ratios of Income of Urban and Rural Residents /

One noticeable condition is the change in the ratios of the end income of urban and rural residents. During the 2 years of 1979 and 1980, due to the hiking of the purchase prices of agricultural products, the expanding of employment in cities and towns and increasing the basic salaries and wages of the staff members and workers as well as enforcing the bonus system, the income of urban and rural residents generally increased rapidly at the same pace. The ratio of the income of rural residents in the gross income of urban and rural residents was 60.6 percent in 1978 and an average of 61.9 percent in the 2 years 1979 and 1980. Beginning from 1981, as a result of wages control, the increase speed of the income of the residents in cities and towns slowed down and its proportion in the aggregate income of urban and rural residents rose to 65.3 percent in 1983. In 1984, due to the enterprises expanding their decisionmaking power and loosening of the control over the granting of bonuses, once again there was the phenomenon of the incomes of urban and rural residents rapidly increasing at the same pace, and the ratios of the two were maintained at the 1983 level. It was in that year that the abnormal increase in agricultural production came to an end and accompanying it was the end of the period of a rapid reduction in the disparity between the incomes of the two sectors. In the 2 years of 1985 and 1986, the increase rate in the income of the peasants dropped sharply. Its ratio in the combined incomes of urban and rural residents dropped to 61.6 percent and 59.3 percent respectively.

Due to the rise in the consumption price indices of the urban residents being even a step faster, generally speaking in these 8 years the growth rate of the real income of the peasants was higher than that of the urban residents. The disparity between the incomes of the two sectors has become narrower compared with the past. Nevertheless, seen from the current condition, this situation has begun to change. For a considerable period from now on, if in the rural villages the non-agricultural industries do not show an abnormal growth rate, relatively speaking the ratio of the peasants' income will still continue to fall. This is a problem that must be considered in determining the future rural economic policy.

A too rapid increase in the residents' income is the basic cause for currency inflation and budgetary deficits. The two occasions, in 1978-1979 and in 1984, of inflation in gross demand may be ascribed principally to the rapid rises at the same pace of the nominal incomes of urban and rural residents. If either one of these two could be kept under control, the situation could turn for the better. If we look at the gross volume, we find that prior to 1986 the proportion occupied by the income of the peasants in the combined

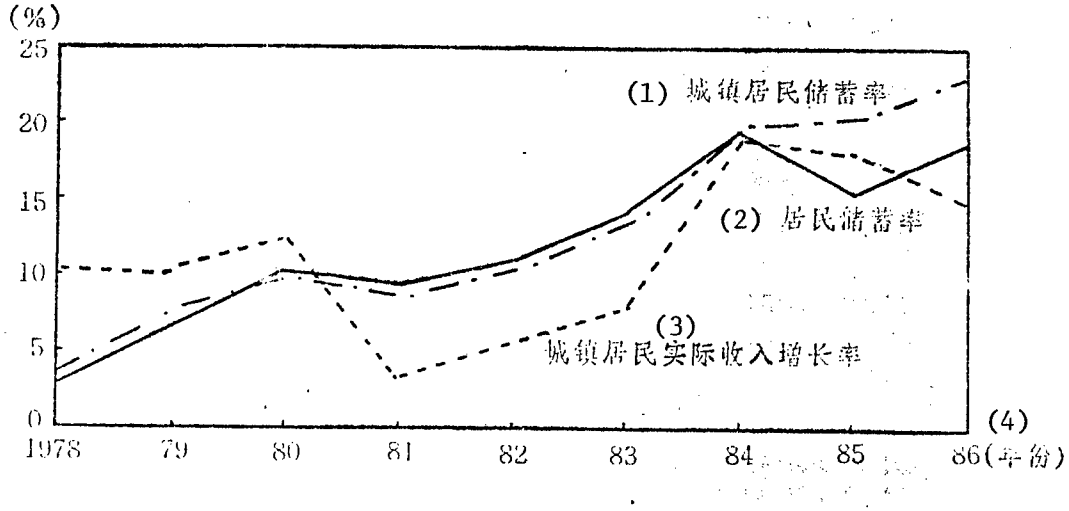
income of urban and rural residents was above 60 percent and that prior to 1984 this ratio had been rising each year. From this it may be said that the most important cause for the inflation in gross demand and the financial deficits was the rapid increase in the peasants' income. In 1985 and 1986, due to the speed of increase in the peasants' income slowing down, consumption demand was compressed. In these 2 years, the rather large-scale rise in the level of prices was in reality the result of the inflation in general demand in 1984.

II Consumption and Savings in Economic Departments

/Disparity Between the Changes in the Residents' Savings Rate and the Growth Rate in Income and Consumption/

Since 1979, the most noticeable variable in the macroeconomic changes is the residents' savings (Footnote 7) (Residents' savings comprise savings in various kinds of monetary forms and the individual's savings in kind such as house building). In 1979, the residents' nominal savings (Footnote 8) (the term nominal savings is so used because in computing the savings amount of the various departments no re-estimate is made of the value of financial assets), amounted to 5.3 billion yuan. In 1986 the amount was 105.5 billion yuan. The average annual increase was 45.3 percent and was 41.9 percent upon rectification of the whole society's retail commodity price general index. In comparison with this growth rate, the residents' savings rate was 3 percent in 1978 and 13.5 percent in 1986.

Diagram 2.3 Residents' Savings Rate and Growth Rate in Urban Residents' Real Income



Notations:
(1) Urban citizens' savings rate
(2) Residents' savings rate
(3) Growth rate of urban residents' real income
(4) Year

From 1979 to 1984, the savings rates of urban and rural residents rose at almost the same pace. In 1985, due to the peasants' income having dropped relatively speaking, the peasants' savings rate also dropped; and in 1986 it was still lower than the 1984 level. However, the savings rate of urban residents continued to improve (See Diagram 2.3).

Seen as a whole, the trend of the residents' savings rate was a rising one but the speed of the rise differed in different years and in certain years the trend was a downward one. This condition was obviously the result of the varying growth rates of real income. In 1981, the growth rate of the real income of urban residents dropped sharply and immediately the savings rate also fell. From 1981 to 1984 the growth rate of the real income of urban residents climbed increasingly higher and along with it the savings rate rose speedily. These variations in the savings rate indirectly indicate that it is incorrect to say that the residents' savings should be taken as "compulsory savings." If they were compulsory savings, then the extent of the savings rate should be entirely determined by the disparity between income and the supply of consumer goods and a relatively high savings rate would be contrary to relatively serious shortages. This is not in harmony with the short-term fluctuations in the savings rate.

So far as macroeconomic equilibrium is concerned, the most important consideration is not the height of the residents' savings rate but its variations. If the savings rate does not change, then regardless of how high it is, the implication is that consumption and income have risen at the same pace. In such a case, if the portion of the residents' end income rises, then the proportion of the residents' consumption in the national gross outlay will likewise rise. If the savings rate rises, then it implies that the growth rate in consumption is slower than that of income. From 1979 to 1986, the average annual growth rate of the residents' end income (corrected according to the retail sales commodity price general index) was 11.4 percent while the average annual growth rate of consumption was 9 percent, a disparity of 2.4 percent between the two. Despite the sustained rise of the proportion of the residents' end income in the distribution of the income subject to the disposal of the nation, the ratio of the residents' consumption in total consumption remained extremely stable, and there was no difference between 1986 and 1978. Under the conditions of the high speed growth of the national economy and the intensifying commodity relations, a rise in the residents' savings rate is a certainty. However, seen from the angle of comparison with other countries, the savings rate of our country's urban and rural residents has already reached a rather high level and the margin left for a further rise seems to be rather small. Seen from the angle of the balances, the ratio of the residents' savings against the income level if still rather low and there is the possibility of a further increase. But it is certain that from now on the residents' savings rate will not rise as rapidly as in the past 8 years. This is an important factor in determining from now on the macroeconomic balancing condition.

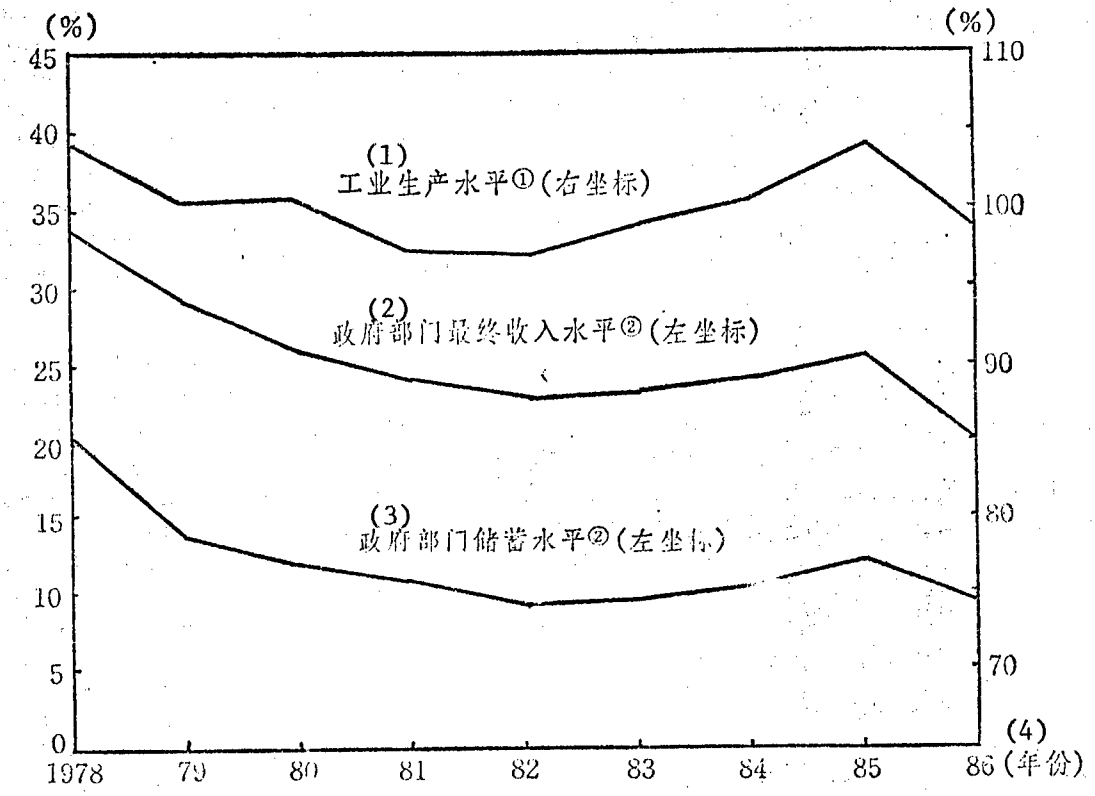
/Consumption and Savings of Government Departments/

Of the income subject to the disposal of the nation, the proportion occupied by the government departments' end consumption outlay (that is: ordinary expenditures) was fairly steady. In the 8 years from 1979 to 1986, the annual average was 13 percent, the same as in 1978. After 1979, under the conditions of stable consumption expenditures, variations in the savings of the government departments were nearly completely determined by the variations in the income portion. Hence, the proportion occupied by government departments' savings in the income subject to the disposal of the nation was each year progressively reduced from 1979 to 1982 and was basically stabilized after 1983.

Seen as a whole, the level of our country's financial revenues and expenditures was rather low among the socialist countries and was also relatively low when compared with the capitalist countries in general. One reason is that in the accounting system a large portion of the transferred expenditures (such as commodity price subsidies, deficit subsidies given to enterprises, and so forth) is handled by the off-setting method, that is, setting against the income and the initial or first income of the finance department mentioned above in reality did not comprise the whole of the initial or first income. Furthermore an even more important cause is that the state does not wholly rely on the form of financial revenues and expenditures to participate in the distribution and utilization of the income subject to the disposal of the nation. Another important distribution form is to take the twisting of prices as the condition and distribute income by means of the price policy. In addition, there is the redistribution of income between the enterprises which is outside the realm of finance and is manifested by various forms of levies and impositions. As for the individual income of the staff members and workers, in the initial distribution stages it has already gone through the process of balancing. As a result of these conditions (in other socialist countries such conditions are also found although the concrete conditions of different countries are different), the level of financial revenues and expenditures is hardly on a comparable basis with foreign countries.

Variations in the level of income and savings of government departments are, on the one hand, related to the variations in the structure of income distribution and, on the other hand, are also closely related to the economic fluctuations. Diagram 2.4 below reflects the relationships between the level of government departments' income and savings and the level of industrial production:

Diagram 2.4 Level of Government Departments' Income, Savings and Level of Industrial Production



Notations and Notes:

(1) Level of industrial production (right coordinate);
Note (1): Level of industrial production is equal to actual output value divided by potential output value

(2) Level of end income of government departments (left coordinate)
Note (2): Levels of end income and savings are ratios respectively occupied by end income and savings in income subject to disposal by the nation

(3) Level of savings of government departments (left coordinate)
Note (2) as above

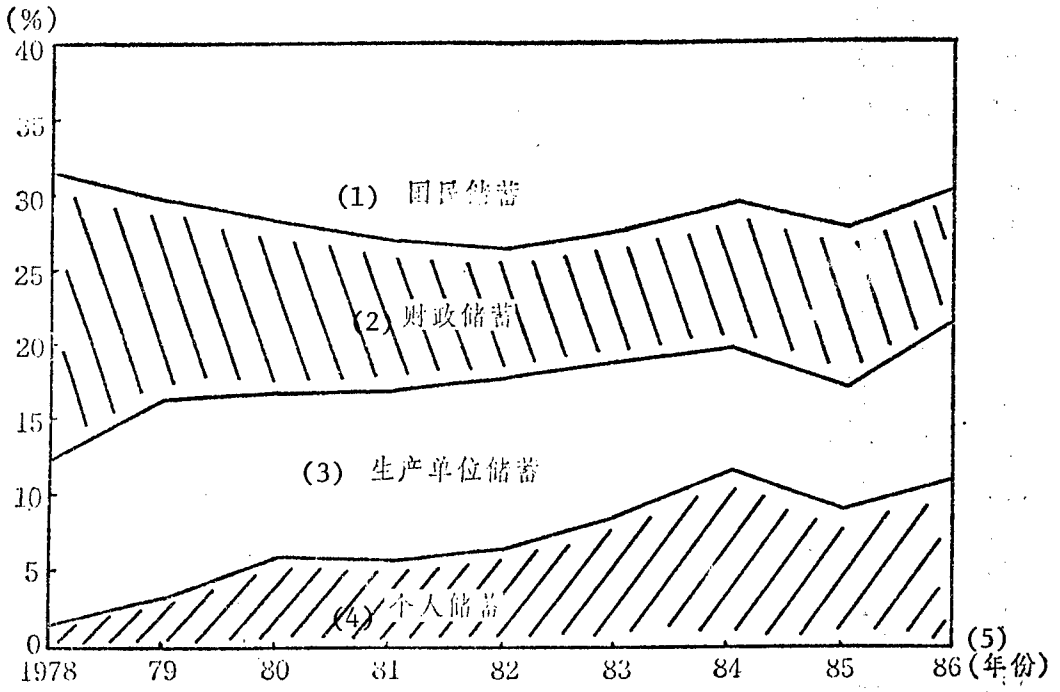
(4) Year

/National Savings and its Composition/

Since 1979, the national savings rate has passed through a saddle-shaped process of changes. There are two causes for this, one of which is due to the effects of the economic cycle. Generally speaking, variations of the consumption level have been relatively stable. When the growth rate of income subject to the disposal of the nation was relatively high, the savings rate was likewise high; when it was low, savings would also be low. From 1979 to 1986, the variations in the growth rate of the national economy were in the form of a saddle and the variations in national savings took basically the same shape. The second cause came from the effects of the changes in the

distribution structure. The proportion occupied by the government departments' consumption expenditures in the income subject to the disposal of the nation is rather rigid as a result of which the government's savings tend to be rather high whereas, contrarily, the limits of the residents' savings tend to be on the low side. Therefore, when and as the portion of the residents' end earnings goes up, the comparative rate of the government's savings limits will go down. However, due to the residents' savings rate gradually going up, when the earnings portion of the residents also rises but without exceeding a certain speed, then the increases in the residents' savings can compensate the reduction in the savings of the government departments. But when the rise in the earnings portion of the residents exceeds that speed, then the national savings speed will go down. In particular, when the residents' savings rate remains stable, a rise in the earnings portion of the residents will generally bring about a fall in the national savings rate. During the first few years of the period from 1979 to 1986, the earnings portion of the residents rose sharply and so there was a large-scale fall in the national savings rate. Subsequently, with the speed in the rise of the residents' earnings portion having been reduced or tending to fall, the national savings rate began to rise again. (See diagram 2.5)

Diagram 2.5 Percentages of the Various Departments' Savings and National Savings in the GNP:



Notations: [for diagram 2.5 on previous page]
(1) National savings
(2) Finance Department's savings
(3) Production units' savings
(4) Individuals' savings
(5) Year

On the side of the national savings, the most important changes were in the relative ratios of the savings of the economic departments. The ratio of residents' savings to national savings was only 4.8 percent in 1978, but rose to 37.4 percent in 1986. In contrast, that of the government departments dropped from 60.3 percent in 1978 to 29.4 percent in 1986. Seen as a whole, the ratio of savings of urban and rural production units was tending to fall.

Outstanding changes in the composition of national savings have exceedingly important effects on the macroeconomic equilibrium and require that corresponding changes be made in the targets, contents, and even policies and measures in macroeconomic equilibrium. In 1978, national finance directly controlled 60.3 percent of the national savings and arranged for their use by means of financial investments and appropriations. By 1986, only some 30 percent of the national savings were under the direct control of the national finance, while the residents' savings, plus savings or urban and rural collective and individual production units, had already reached 54.4 percent of the national savings. Obviously, it was no longer possible to control investments of the national economy solely by means of financial investments.

III Investment Sources, Errors in Structure of Their Uses and Level of Usage of Credit in the National Economy

/Supply and Use of Funds in Various Economic Departments/

Net savings plus depreciation of the various economic departments in the country form the gross savings which constitute the funds which the departments provide for investments in society. At the same time, the various departments also make use of fixed funds for investment. The difference between the funds provided by the various departments and the amount used constitutes surplus funds (or credit). Since 1979, great changes have taken place in the composition by department of the sources of gross investments by society but the composition of the departments making use of the gross investments by society has been relatively stable and the deviation between these two compositions has been steadily growing.

The ratio of residents' gross savings in the sources of society's gross investments was 5.5 percent in 1978, reached 34 percent in 1986, and registered an increase of 28.5 percent. The ratio of residents' investments (that is peasants' investments in residences) in society's gross investments was 4.1 percent in 1978, and rose to 12.1 percent in 1986, a rise of 8 percent. Clearly, the residents' surplus funds have made a large-scale increase. Under normal conditions, the ratio of peasants' investments in housing in

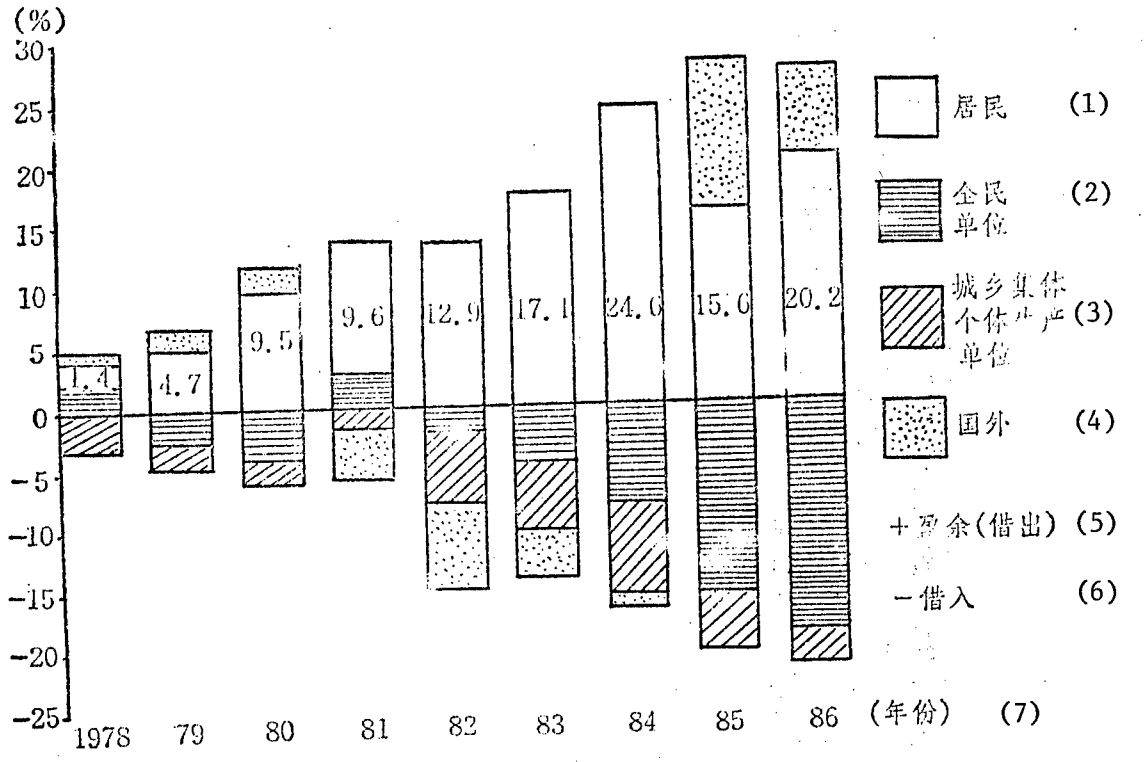
society's gross investments should be a stable one. In the process of the peasants' shift to non-agricultural pursuits and a rise in the commercialization degree of housing, this ratio should normally decline. This ratio's rise since 1979 was due to the effects of historical causes, also due to the effects of the factor of the increase in income bringing about an even speedier increase in the demand for housing, and due to another important cause, this being the social regulation of investments not being exactly ideal. If the peasants' investments in house building can be lessened a little, then more funds will be available for use on other investments. Obviously this is a problem that deserves attention in developing the social merging of funds from now on. Seen as a whole, under the conditions of a rise in the residents' savings rate, the residents can provide to other departments an increasing amount of surplus funds.

In contrast with the conditions of the residents' households, the ratio of the gross savings of units under the system of ownership by the whole people (including enterprises of government departments and enterprises under the system of ownership by the whole people) in the sources of society's gross investments dropped from 78.6 percent in 1978 to 45.3 percent in 1986, a drop of 33.3 percent; but the ratio of investments only dropped from 77.3 percent in 1978 to 68.5 percent in 1986, or a drop of 8.8 percent.

The ratio of the supply of funds by urban and rural collective and individual production units and the ratio of their use of funds have also suffered certain changes, the former slightly falling and the latter rising but having no appreciable effects on the structure of the sources of society's gross investments or the structure of the usages. In addition, in 1986 the ratio of the net inflow of funds rose. These factors together with the rapid increase in the residents' gross savings have jointly brought about a large-scale decline in the ratio of funds supplied by units under the system of ownership by the whole people.

The level of society's inclination to the use of credit is reflected on two sides. One side is the ratio between society's gross financial assets (or gross liabilities) and the GNP; and the other is the ratio between the sum total of borrowed funds of borrowing departments) and either the GNP or the sources of society's gross investments. The direction of the changes of these two sides is in general the same. In 1978, the surplus funds of the three surplus departments comprising the residents, units under the system of ownership by the whole people, and organs abroad made up only 4.8 percent of the sources of society's gross investments. In 1986, the surplus funds of the two surplus departments, namely, the residents and organs overseas, reached a ratio of 26.9 percent of the sources of society's gross investments. (See Diagram 2.6 below) Computing the ratio between surplus funds and the GNP, it is found that the 1978 ratio was 1.8 percent while the 1986 ratio was 10.7 percent.

Diagram 2.6 Percentages of Economic Departments' Surplus Funds and Borrowings in the Sources of Society's Gross Investments:



Notations:
(1) Residents
(2) Units owned by the whole people
(3) Urban and rural collective and individual production units
(4) Overseas
(5) Surplus (loans)
(6) Borrowings
(7) Year

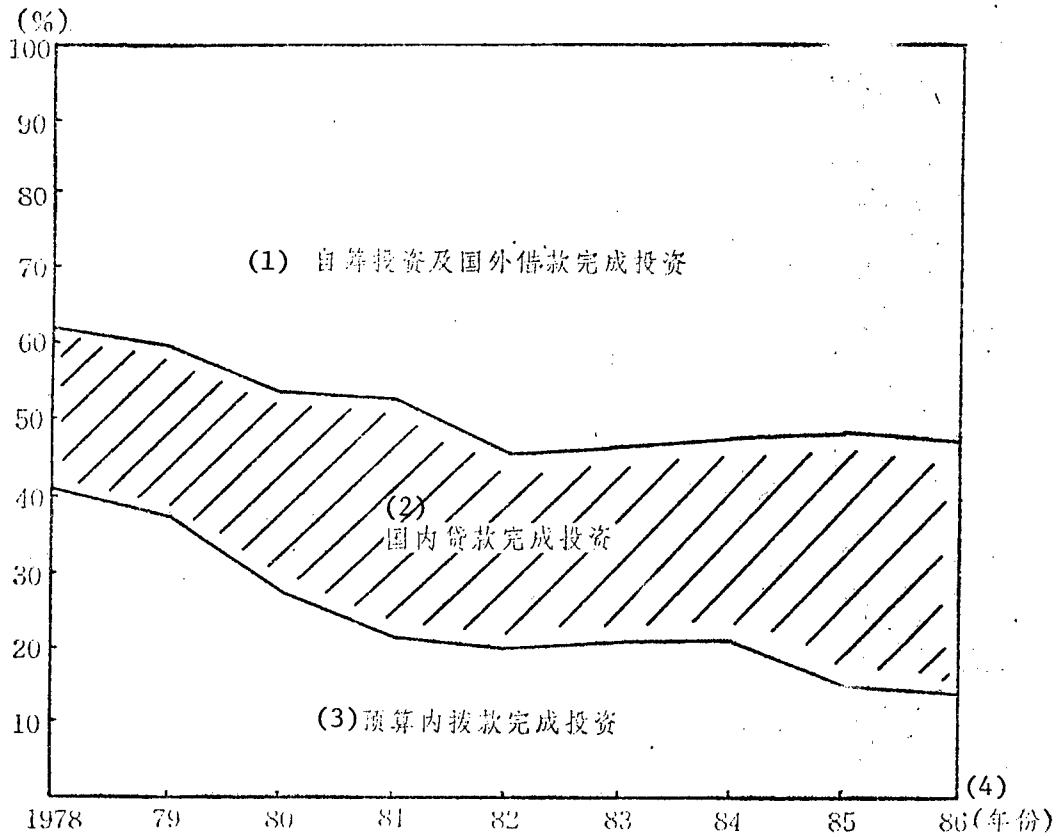
Note: The sum of surpluses not being equivalent to the sum of borrowings is due to the difference or error in the statistical specifications. The difference in the statistical specifications is shown in the non-unanimity between the amount of investment outlay and the amount of investments completed.

In the over 20 years before 1978, the various economic departments' self-owned funds and funds in use were generally equal or basically balanced. Or it may be said whoever saved also invested. Funds paid out by banks in regulation or adjustment mainly consisted of production units' circulating funds. Hence the past macroeconomic equilibrium theory stressed that he who engaged in investment likewise engaged in savings; as for the residents, they had no investments outside of those in house building and hence the residents' income was tantamount to "consumption funds"; the excess of a resident's income over his consumption outlay formed his balance or leftover purchasing power. This way of presentation called the rise in residents' savings rate, that is, rise in the degree of society's use of credit, the "super distribution of national income."

/Formation of Investment: From Being Principally Led by Finance to Being Principally Led by Credit/

Heightening of the degree of resorting to the use of credit brought about a rapid rise in the ratio of investments financed by banks loans in society's gross investments. In 1978, in the completed social gross investments, completed investments from budgetary appriations (Footnote 9) (Referring to completed investments from budgetary appropriations under the state plan, but not including completed investments financed by foreign loans under the sole charge of the finance department in both borrowing and repaying. The latter is included in completed investments financed by foreign loans) made up 41.2 percent while investments financed by domestic loans made up 20.6 percent, the former being 200 percent of the latter. In 1986, the proportion of completed investments financed by budgetary appropriations dropped to 13.6 percent while the ratio of completed investments financed by bank loans rose to 32.9 percent, the latter being 240 percent of the former. (See diagram 2.7)

Diagram 2.7 Ratios of Completed Investments Financed by Funds Raised by Different Channels:



Notations: [for diagram 2.7 on previous page]
(1) Completed investments financed by self-raised funds and foreign loans
(2) Completed investments financed by domestic loans
(3) Completed investments financed by budgetary appropriations
(4) Year

At the same time, the ratio of completed investments financed by the self-raised funds of production units and residents rose from 38.2 percent in 1978 to 49.5 percent in 1986. Of the increase of 11.3 percent, 8 percent was brought about by the rise in the ratio of the peasants' investments in house building and as a matter of fact the ratio of completed investments financed by the self-raised funds of urban and rural production units rose only slightly.

Due to the bank's investments in loans far exceeding the finance department's investment appropriations, it may be said that the mechanism for the formation of the social gross investment demand (Footnote 10) (Strictly speaking, the demand should be for investment materials and labor. Under the conditions of investments from financial appropriations, the enterprises' investment demand is unlimited; similarly, the enterprises' demand for bank loans is also very big and cannot be measured. The demand for investment materials refers to the demand for the purchase of investment materials and for labor existing after obtaining the financial appropriations or bank loans. When talking about the inflation of investment demand, it is exceedingly important to differentiate between these two kinds of demand) is shifting from the finance-led type to the credit-led type. Despite the rise in the ratio of investments by self-raised funds, say to the extent of surpassing the sum total of investments by financial appropriations and investments by bank loans, investments by self-raised funds do not determine money supply and do not, from this direction, affect the investment general demand. A large or small investment general demand may be traced to whether credit is loosened or tightened. Seen from this point, it may be said that formation of the investment general demand is bound to be determined by money supply. However, prior to 1978, the finance department, rectifying the deficit (or surplus) level, resorted to either expanding (or tightening) the investment outlay while the deficit was made up by bank loans and the surplus was deposited in the bank. Here, the finance department took the initiative and the direct source of the investment appropriations was the finance department. Inflating or tightening of the financial investments then determined the level of social credit. Since the compressing and tightening of the financial investment appropriations in 1981, changes have occurred in the situation and the banks' investment loans surpassed in amount the financial investment appropriations. Even though the undulations or fluctuations in the financial investment appropriations were the same as before, the resultant fluctuations in the social gross investments were very small in scale. Besides, due to the falling in the ratio of financial investment appropriations in the gross investments, the undulations and fluctuations in the financial investment appropriations were in themselves also smaller in scale than before.

Proceeding from the finance-led pattern to the credit-led pattern breeds a series of consequences. The first and foremost consequence is that the implication of many macroeconomic phenomena is no longer the same as before. Certain of the signals given out by the targets in the indicator of the macroeconomic condition may on the surface be the same as before but the objective economic condition they reflect may be to the contrary.

IV Financial Revenue and Expenditures and Deficits

/Level of Financial Revenues and Economic Fluctuations/

There were two stages in the changes of the ratios occupied in the GNP by financial revenues, financial expenditures, and financial deficits since 1979 (Footnote 11) (Here we analyze financial (budgetary) gross revenues and gross expenditures: revenues refer to non-loan revenues or receipts, equivalent to end income plus transferred expenditures and depreciation centralized in the budget. Revenues or receipts include transferred expenditures and consumption and investment expenditures, but less expenditure on the side of loans. Deficits (combined or comprehensive deficits) refer to the differences between non-loan revenues and expenditures, or the red figures in financial statistics plus net receipts from loans). (Below, these three items will be respectively termed level of financial revenues, level of financial expenditures and level of financial deficits.) In the first stage, that is, from 1979 to 1981, the level of financial non-loan revenues dropped sharply but in 1979 the level of expenditures rose, making the level of deficits that year run as high as 5.3 percent. In the subsequent 2 years, the measures taken to readjust the national economy compressed considerably the financial expenditures and the financial deficits dropped year after year. In the second stage, the levels of financial revenues and expenditures and of financial deficits became basically stable and the level of deficits averaged 1.2 percent. In 1985, there was a slight surplus but in 1986 the deficits were as high as 22.8 billion yuan (Footnote 12) (In the finance minister's report the estimated figure of 1986 financial revenues included some 6 billion yuan of collection of various kinds of revenues of preceding years. In this article this 6 billion yuan was deducted from the 1986 revenues and entered into the 1985 revenues), and the deficit level was 2.4 percent. The changes in the financial situation in these 2 years may be mainly attributed to the fluctuations in the national economy.

Changes in the demand situation lead to an over-heated economy or to an economic recession relatively speaking, and in turn may cause the level of financial revenues to rise or to fall. When an overly large demand causes an overheated economy, due to the stable character of depreciation, interest rates, basic salaries and wages and other cost of production factors, the enterprises' level of profits rises and the level of financial revenues also rises. Conversely, when the economy is in a state of relative depression, the level of fixed production costs in the enterprises gross income goes up and the level of profits goes down. In addition, after an overly large demand, an unfavorable balance in international payments appears (or the level of adverse balance rises), net imports increase and revenue from custom duties is also increased because of this. Conversely, an opposite situation is obtained following relative depression of demand. Hence, a definite kind of taxes, tax rates and other conditions determine a balanced level of

financial revenues whereas economic fluctuations bring about boom revenues in finance. In times of an overheated economy, boom revenues are on the plus side and at times of a relative recession in the economy boom revenues are on the minus side. In 1985, the relatively high level of financial revenues was caused by an overheated economy. If the boom revenues were set aside, that year's balanced level of revenue was slightly lower than that in 1984. In 1986, the level of financial revenues was low, due more or less to the effects of the relatively tightening measures taken (See diagram 2.4). (Footnote 13) (Diagram 2.4 shows the level of revenues of government departments. Here reference is made to the level of revenues in the financial budget. The latter makes up a large portion of the former, but the fluctuations of both are alike.) In the event of an imbalance in the financial revenues and expenditures and when reduction of the red figures is set as the policy objective, we should adopt the policy of raising the level of balanced revenues on the side of revenues.

Seen as a whole, since 1982, the level of financial balanced revenues has remained basically stable, although there was a slight tendency of gradually falling. The results of the former measures of additionally levying the collection of energy and communications funds and collecting taxes in lieu of the delivery of profits were good ones, but they have served only as a temporary check on the fall in the level of balanced revenues and have failed to stabilize it definitely. Hence, stabilizing and appropriately raising the level of balanced revenues is one of the important objectives in macroeconomic regulation and adjustment from now on.

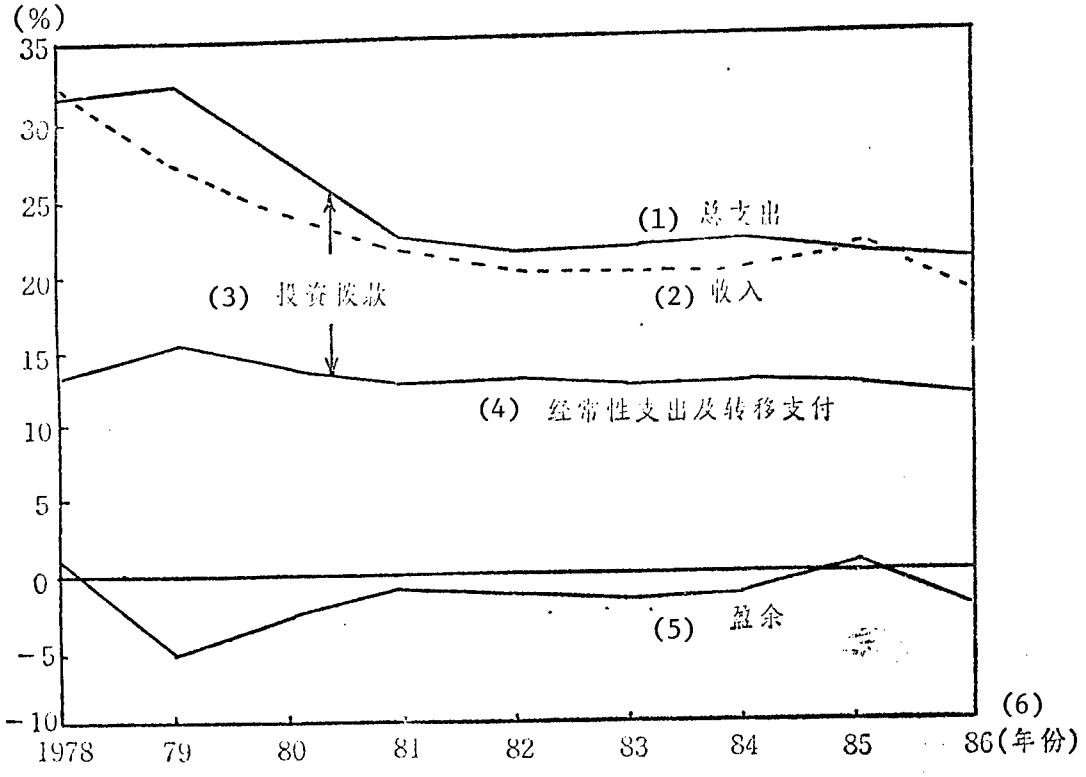
/Changes in the Level of Financial Expenditures and the Significance of Deficits/

Since 1979, except the preceding 2 years, the level of consumption expenditures in finance (Footnote 14) (That is, ordinary expenditures including expenditures on administration, national defence, and culture and education. In another sense, expenditures on education may be treated as investment expenditures but are here still treated as consumption expenditures) and that of transferred expenditures have been fairly stable and basically have not been affected by the economic fluctuations. In 1981 and 1986, due to the adoption of the retrenchment policy, financial expenditures of an economic nature and the level of transferred expenditures dropped slightly, but seem as a whole, the level of expenditures on these two sides is rather rigid in nature and in the foreseeable future little ground is left for their reduction or retrenchment.

Regarding the basic relationship of the level of financial revenues and the level of expenditures of an ordinary nature with economic fluctuations, no fundamental changes have occurred since 1979 compared with before whereas the relationship between the level of investment expenditures and economic fluctuations has suffered a great change compared with before. Before 1979, financial investment expenditures occupied a leading position in society's gross investment expenditures, showed rather large fluctuations and their fluctuations served as the leading factors in the investment-industry cycle. Following the large-scale reduction of financial investments from 1980 to

1981, the fluctuations in the financial investment expenditures were rather small. In the investment inflation that appeared at the end of 1984 and the investment retrenchment in 1986, only slight changes were incurred in the level of financial investment expenditures.

Diagram 2.8 Percentages Occupied by Financial (Budgetary) Revenues, Expenditures, and Surpluses in the GNP:



Notations:
(1) Gross expenditures
(2) Revenues
(3) Investment appropriations
(4) Ordinary expenditures and transferred payments
(5) Surplus
(6) Year

Thus, the stable character of the level of financial general expenditures was superior to that of the level of gross revenues. During the period from 1982 to 1986, the highest ratio of financial revenues in the GNP was that in 1985 when it was 21.8 percent and the lowest was in 1986, namely, 19.2 percent. The disparity between the two was 2.6 percent. During the same period, the highest ratio of financial gross expenditures in the GNP was that in 1984, that is, 22.7 percent while the lowest was in 1986, 21.0 percent, a disparity of 1.7 percent between the two. From this a very significant result may be noted: in years of an overheated economy, the growth rate of the level of financial revenues was larger than the increase span in the level of expenditures while in years of retrenchment, the span of the fall in the level of financial revenues was larger than that in the level of expenditures. Due to this type of relationship, the financial deficits carried a significance which was a little different from that in the past.

The appearance of financial deficits (be it a rise in the level of deficits or a fall in the level of surplus) may be traced to only two basic conditions: fall in the level of revenues or rise in the level of expenditures. Before 1979, the major cause leading to the short-term fluctuations in the national economy belonged to the supply side (Footnote 15) (See article "Macroeconomy in the Course of the Reform; Growth and Fluctuations of the National Economy," Section V, JINGJI YANJIU, No. 7 1987), that is, causes of a poor harvest and political campaigns led to a fall in the growth rate (or appearance of a minus growth) of the national income, and at this juncture, the level of financial revenues dropped. The rise in the level of deficits resulting therefrom indicated that all was not well with the national economy. Under the conditions of a relative stability in the level of revenues, a rise in the level of expenditures can also cause red figures and such red figures frequently carry the implication that general demand has inflated or is inflating. Hence, generally speaking, a rise in the level of deficits (or a fall in the level of surplus), either implies a worsening situation in the supply side or indicates an inflated demand and both of them are bad.

The three changes mentioned below make the present deficits carry a different significance when compared with those in the past. First, the stable character of the national economy is higher when compared with the past. Second, the effects of changes in the demand condition on the national economy are larger than before. Third, the increase in the extent of the national economy's use of, or inclination to, credits on the one hand causes a fall in the ratio of the financial investment expenditures and, on the other hand, renders the definite deficits smaller in terms of the funds available from loans. The result of the combination of these three points is: In the course of short-term economic fluctuations, expansion of the gross demand leads to an overheated economy and to a financial surplus (or a rise in the level of surplus or a fall in the level of deficits) and the situation will be reversed in the event of tightening of the gross demand. Seen as the indicator of the macroeconomic condition, the manifestations of the level of financial deficits in the short-term changes indicate a state of the national economy greatly different from that in the past. In the last 2 years people have been

discussing this problem: why is it that in times of market tension finance can pass the days smoothly whereas in times of an easy market finance becomes tense? So far as short-term fluctuations are concerned, this is the inevitable result of raising the extent of the economy's tending to the use of credits. Under such conditions, the choice in the short term of a macro-economic policy must carefully weigh the pros and cons of a variety of targets.

V Results of High Speed Increase in the Nominal Income of Residents

The results of the growth rate of the nominal income of residents being higher than the actual growth rate of income subject to the disposal of the nation are either a rise in the income or earnings portion of the residents or currency inflation or both. In the 8 years since 1979, both results have occurred but in the first 4 years, the main feature was the increase in the income portion of the residents while in the subsequent 4 years currency inflation was the main feature (see Table 2.1 below). In the 2 years 1985 and 1986, due to the rather high currency inflation rate, the residents' income portion was not as high as that in 1984.

Table 2.1 Results of Increase in Residents' Nominal Income

Items (Percent)	1979-1982	1983-1986
Difference between annual growth rate of residents' nominal income and actual annual growth rate of income subject to disposal by nation	6.9	5.6
Difference between annual growth rate of residents' real income and actual annual growth rate of income subject to disposal by nation	3.7	0.8
Average annual increasing rate in indices of retail commodity prices (Annual increasing rate of indices of national income and prices)	3.1 (2.3)	4.7 (4.9)

An excessive rise in the income portion of the residents can cause a drop in the national savings rate such as the condition in the first 4 years. In the subsequent 4 years, despite the fact that the income portion of the residents continued to rise, the rise was at a low speed but the residents' savings increased even faster and, on the contrary, the national savings rate rose yearly.

The factors mentioned in the above are the basic starting points in considering the problem of the growth rate of the residents' nominal income. Seen from the long term, it is necessary to make the growth rate of the residents' nominal income gradually become the same as that of the income that is actually

subject to the disposal of the nation. But in such a process, due to the effects of the tightening or retrenchment, the growth rate of income actually subject to the disposal of the nation may fall and, moreover, controlling the residents' income from growing too fast has many real difficulties. In such a case, we may consider gradually achieving this target in several years' time. In 1986, residents' normal income increased 15.5 percent compared with the preceding year in which the peasants' nominal income increased 11.2 percent and the urban residents' nominal income increased 22.5 percent. If the growth rate of residents' nominal income can be lowered by one percent each (the growth rate of urban residents' nominal income to be lowered by 2 percent each year), then in about 5 years' time, the growth rate of residents' nominal income can be lowered to around 10 percent and by so doing currency inflation can be basically eliminated. Proceeding at this speed of readjustment, the effects on the growth rate of the national economy will be rather small. In addition, as a result of the slowing down in the growth rate of employment, it is possible to gradually lower the investment rate and the national savings rate so as to ease the pressure arising from the overly rapid increase of the residents' income.

In the 3 years from 1984 to 1986, the growth rate of the residents' nominal income was respectively 21.4 percent, 19.1 percent, and 15.5 percent, showing a downward tendency. Maintaining this trend, even though it is a little bit slow, can also gradually reach the retrenchment objective and there is no need to carry out a wholesale readjustment of the national economy. Naturally, it is not an easy matter to control the growth rate of the nominal income of the urban populace and to do so great efforts have to be exerted. At the same time, controlling the construction scale (particularly cutting down the projects under construction) meets with many difficulties and we cannot afford to be careless. If there is no determination to adopt a stable retrenchment policy, it is entirely possible that a situation may arise in which we are totally unable to depress the growth rate of the gross demand. If this situation continues, a stagflation situation may develop in which the economic growth rate is slowed down and currency inflation gone out of control. Hence, in general, two cardinal points should be borne in mind: one is to firmly insist on a tightening and retrenchment policy and on readjusting in the course of reform and the other is to carry out retrenchment in an unhurried manner, to prevent violent economic fluctuations and to maintain a steady growth rate.

Appendix

A comprehensive study of the technological process of the revenues or receipts of the national economy requires a definite method of business accounting. With due consideration of the limitations of the MPS system, we have taken the basic method of the SNA system as a basis, duly considered the actual condition of our country's economy and the existing statistics, and compiled the framework for analyzing the technological process of the revenues or receipts of the national economy. The basic conditions are shown in appendix tables 1 and 2 and in the notes and explanations mentioned in this article (more detailed explanations will be made in a separate article).

Sources of the basic materials are from the "China Statistical Yearbook" and other statistical materials. Certain individual figures (mostly pertaining to 1986) are estimates.

Appendix Table 1 GNP and Income and Consumption of Economic Departments

a)	b) 1	c) 2	d) 3	e) 4	f) 5	g) 6	h) 7	q) i) 8	q) j) 9	q) k) 10	l) 11	m) 12	q) n) 13	q) o) 14	q) p) 15
1978	3497	3483	3304	3315	1767	1071	1118	1050	384	221	137	2214	1714	454	450
1979	3914	3895	3699	3709	2063	1282	1083	989	510	323	159	2552	1928	571	550
1980	4308	4289	4051	4061	2462	1519	1064	968	471	311	130	2836	2202	570	549
1981	4618	4600	4335	4346	2717	1720	1047	948	514	381	106	3100	2451	581	552
1982	5020	5002	4705	2714	2992	1919	1086	970	558	399	134	3393	2660	655	616
1983	5615	5581	5259	5269	3399	2220	1225	1094	559	377	153	3716	2910	720	686
1984	6684	6647	6275	6285	4137	2699	1505	1343	538	309	191	4304	3349	850	810
1985	8155	8110	7636	7648	4925	3033	1946	1711	650	364	241	5347	4182	1038	1001
1986	9380	9320	8743	8758	5689	3372	1976	1717	935	457	428	5940	4634	1148	1082

Notations: a) Year; b) GNP; c) Gross value of domestic production; d) Net value of national product; e) Income subject to disposal by nation; f) Residents' end income; g) Peasants' end income; h) Government departments' end income; i) Financial (budgetary) end income; j) End income of urban and rural production units; k) End income of enterprises owned by whole people; l) End income of production units in rural villages; m) National consumption; n) Residents' consumption; o) Government departments' consumption; p) Financial (budgetary) end consumption; q) Of which

Notes: The above table has shown certain basic figures or amounts. Certain other figures or amounts may be computed from the following formulas: Net receipts from external major factors equals 1-2; depreciation equals 1-3; External net transferred receipts equals 4-3; Non-profit-making organs' end income (consumption) equals 4-5-7-9 (equals 12-13-14); Urban residents' end income equals 5-6; Extra-budgetary end income of local governments and administrative business units equals 7-8; End income of production units of urban collective and individual bodies equals 9-10-11; National savings equals 4-12; Residents' savings equals 5-13; government departments' savings equals 7-14; and savings of urban and rural production units equals 9.

Appendix Table 2 National Gross Savings and Investments
(Unit: hundred million yuan)

a)	b) 1	c) 2	d) p) 3	e) 4	f) 5	g) p) 6	h) 7	i) 8	j) p) 9	k) 10	l) 11	m) 12	n) 13	o) 14
1978	1294	71	1026	62	18	32	12	1286	982	530	0	265	53	-20
1979	1372	154	993	90	66	-45	24	1382	1059	516	21	300	88	-14
1980	1482	292	988	172	143	-65	29	1429	1157	393	51	369	149	-82
1981	1529	303	1045	192	143	49	-32	1396	1068	302	34	432	160	-101
1982	1636	377	1047	196	196	-28	-113	1561	1294	313	60	399	181	38
1983	1909	543	1123	313	313	-90	-76	1788	1492	374	67	453	230	-45
1984	2390	848	1238	582	582	-192	-25	2190	1877	454	71	578	266	-175
1985	2820	827	612	866	498	-504	368	2995	2540	445	92	988	329	-193
1986	3455	1174	1679	1027	749	-726	250	3509	2999	476	140	1155	425	-196

Notations: a) Year; b) National gross savings; c) Residents' gross savings; d) Gross savings of units owned by the whole people; e) Gross surplus funds of departments with surplus funds; f) Residents' surplus funds; g) Surplus funds of units owned by the whole people; h) Net capital inflow; i) Gross investments; j) Fixed assets investments; k) Completed investments from financial appropriations; l) Completed investments from foreign loans; m) Completed investments from domestic loans; n) Completed investments from residents' self-raised funds; o) Statistical discrepancies; p) "of which."

Notes: Gross savings of urban and rural enterprises not under system of ownership by the whole people equals 1-2-3; Surplus funds of urban and rural enterprises not under the system of ownership by the whole people equals -(5 plus 6 plus 7 plus 14); Residents' completed investments equals 2-5; Completed investments of units under system of ownership by the whole people equals 3-6; Completed investments of urban and rural enterprises not under the system of ownership by the whole people equals (1-2-3) plus (5 plus 6 plus 7 plus 14); and Completed investments from localities; and enterprises' self-raised funds equals 8-10-11-12-13).

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JINGJI YANJIU LOOKS AT STATE-GUIDED PRICING

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[Article by Wang Xiangchun [3076 4382 2504] of the North-East University of Finance and Economics: "On State-Guided Pricing"]

[Text] State-guided pricing is an important pricing form put forward not long ago. Seen from the pricing reform angle, it may be the main pricing form in the future. However, the role of state-guided pricing, its basic forms, the scope of its suitability and the price-fixing principles are still being discussed. This article explores these matters.

1. The Role and Basic Forms of State-Guided Pricing

In China's national economic planning management at present, there have been implemented, in accordance with the different situations of the various economic activities, three different types of management forms. These are mandatory planning, guidance planning and "regulation completely by market mechanism." Corresponding to the various forms of planned management, the state in its management of the pricing of various types of commodities has adopted three forms; state unified pricing, state-guided pricing and pricing through market regulation.

The characteristics of state unified pricing are very clear. It involves the state setting the prices, and the principal part in setting prices is thus played by the state. The specific prices set by the state for representative standard commodities have a mandatory nature. The enterprises must implement these and there is no roomfor flexibility. The characteristics of pricing through market regulation are also very clear. This involves enterprises setting their own prices, and in this enterprises have complete freedom. Thus, pricing through market regulation is also called free pricing.

What then are the characteristics of state-guided pricing. At present, the understandings people have on this are divergent. I believe that state-guided pricing involves the state engaging in intervention in and control of market regulation prices. 1. It is different from state unified prices. For commodities which have prices set in a unified way by the state, the principal role in setting prices is played by the state, while for commodities

which are subject to state-guided pricing, the principal role in setting prices is played by the enterprises. 2. It is different from pricing by market regulation. For commodities which are subject to market-regulation pricing, the enterprises have complete freedom to set prices, while for commodities subject to state-guided pricing, the enterprises do not have complete freedom to fix prices. They are only allowed to freely fix prices within the restrictions set down by the state (for example, they are not allowed to violate state-stipulated maximum prices or minimum prices). 3. The role of state-stipulated pricing is to enable the state to engage in guidance of the prices set by market regulation. Put bluntly, it is to allow the state to engage in intervention in and control of those prices subject to market regulation.

As seen from historical experiences of international and domestic price control, the main reasons states engage in intervention in and control of prices subject to market regulation are as follows:

1. In times of war, for the purpose of widely galvanizing economic resources to fulfill the demands of war and to control inflation which is almost inevitable in war-time, nearly all countries exercise control over the prices of, and introduce rationing of, consumer products and the means of production.

2. In peace-time, when monetary inflation occurs, in order to control the growth in the overall level of prices, apart from using financial measures and monetary measures, many countries also implement price control for various major products, for example by introducing a price freeze.

3. In respect of agricultural products which require a quite long period in their production, under completely laissez-faire conditions, the peasants will generally determine the quantities they will supply to the market in the next period on the basis of current prices. If the current price prices are a little high, the volume produced (the supply volume) in the next period will be too great. The supply will exceed demand which will lead to a drop in price. A drop in price may lead to a decrease in supply in the next period and prices will then rise and.... In this way, there will be quite large rises and falls in prices and subsequent large increases and decreases in production. Clearly, large increases and decreases in production are harmful and to reduce excessive fluctuations in production, it is necessary to engage in price controls.

4. For some commodities (such as ivory, musk and eucommia bark), resources are limited and supply is far from able to meet demand. If the prices were left entirely to market regulation, prices would become too high which would result in producers engaging in plundering-type hunting or felling. This would result in serious harm being done to our resources. If we take eucommia bark as an example, in some producing areas because there had occurred price rises and rush purchases, it resulted in excessive de-barking and cutting down of trees. In general, the eucommia needs 12 years

of growth before the bark can be obtained from it. If the resources suffer damage just once, even in 10 years it will be difficult to restore the original situation.

5. There are some commodities such as steel products which, for the moment, have very little flexibility in terms of supply and demand. On the one hand, the erection of new steel plants or the expansion of existing plants requires quite a long period of time, and in the short-term, there is little leeway for expanding production and supply. On the other hand, steel products are an essential material for the construction industry and the machine-building industry, and thus the possibility of being able to suppress demand is also very slight. If the prices were left entirely to market regulation, in a situation where demand exceeds supply, the prices would rise by a large degree and this would bring a series of unfortunate effects.

6. Some commodities such as grain affect the basic livelihood of the people. Many countries throughout the world have guaranteed minimum purchase prices for grain so as to safeguard and promote grain production. At the same time, they have maximum retail prices for grain so as to guarantee the livelihood of the people. This results in losses for grain enterprise operators and these are subsidized by state finances.

The above six situations can be summarized into two types. The first type is where commodity supply does not meet demand. Thus when market prices go up and the price level is too high, the consumers (including livelihood consumption and production consumption) cannot bear it. In order to look after the consumer's interests, the state must impose price controls, and a feasible method is to set maximum limits on market-regulated prices. The second type is where commodity supply exceeds demand. Thus, when market prices decline, the price level will be too low, resulting in the majority of the producers incurring losses or making no profits. To protect the interests of the producers, the state must impose price controls, and a feasible method is to set minimum limits on market-regulated prices.

The specific forms of state-guided prices are now considered to be of the following four types: 1. Floating prices, where the state stipulates a median price and the limits of flotation, and the enterprises are freely allowed to fix prices within the range of these limits. 2. Restricted prices, which include maximum and minimum prices. The limits will be set by the state and the enterprises will be free to set prices within the scope of the limits. 3. Agreed unified prices, whereby the pricing departments organize the production and the demand sides to discuss and agree on a price, which is then implemented in a unified way in the production area.
4. Industry-wide unified prices, where the various enterprises of an industry consult about and negotiate a price which is then reported to the pricing departments for the record and which is implemented in a unified way throughout the industry.

I believe that agreed unified prices and industry-wide unified prices are not state-guided prices, because they are decided basically by the enterprises themselves. The pricing departments do set down any limiting conditions, and they do not intervene in this or control it. As to the floating prices, the state sets down the median price and the range it can float upwards and downwards. The stipulation of the degree to which it can float upwards is in fact the stipulation of a maximum price, while the stipulation of the degree to which it can float down is in fact the stipulation of a minimum price. Thus, floating prices and restricted prices are actually the same thing. From the above analysis, we can see that maximum price and minimum price are the basic forms of state-guided pricing.

2. On Maximum Prices

The aim of the state in stipulating maximum prices is to control the price of a particular commodity from rising too high, and to resolve the problem of price levels being too high. Maximum prices are suitable for use with commodities where supply does not meet demand and commodities where prices tend towards high levels. On this point, understandings in the past have had problems. For example, one type of idea in respect of floating prices in the past was that: In respect of commodities where production exceeds demand, the state should set maximum price and the enterprises should be permitted to let prices float downwards from this. (Footnote 1) (See Zhu Rongji [2612 3579 1015] (chief ed.): "Economic Management in Contemporary China" CHINA SOCIAL SCIENCES PRESS 1985 edition, p. 405) This idea is not correct because in a situation where supply exceeds demand, prices will only move downwards, and there is no possibility of them rising. As there is no possibility of the prices rising there is absolutely no need to talk about setting maximum prices.

The principles for setting a maximum price are as follows: 1. It must be lower than the market-regulated price (that is, the equilibrium price) level, and cannot be equal to or higher than the market-regulated price level. The reason the maximum price must be lower than the market-regulated price is that the aim of the maximum price is to resolve the problem of the price level being too high as a result of prices growing too much. To achieve this, the maximum price must be lower than the level of the current market-regulated prices. If it is equal to or higher than the market-regulated price, then the excessively high prices will not come down and the maximum price will only be nominal and will not play any role. 2. The maximum price should likewise not be set too low. It is not a case of the lower, the better. First, seen from the short-term, the maximum price must not be lower than the average variable costs per unit product. What are referred to as variable costs indicate all expenses which rise or fall together with the increase or decrease of the product's production volume. These include direct material costs, direct labor costs as well as the flexible part of production expenditure (such as tool consumption expenditure). If the price is lower than the variable costs, the existing

enterprises will immediately stop producing this product. Second, seen from the long-term, the maximum price cannot be lower than the average overall per unit product costs together with normal profits. Otherwise, under conditions where the price is higher than average variable costs, while in the short-term the enterprises will still continue to produce the product, in the long-term, when the original production equipment has to be scrapped, the enterprise will not be able to purchase new equipment to continue production and will have to stop production and change speciality. At that time, there will appear the situation of "no price rises and no goods."

Some comrades hold that in setting maximum prices, we should use value as the base, and at the same time consider the influence of supply and demand factors and policy factors. (Footnote 2) (See Qiao Rongzhang [0829 2837 4545]: "Limited Prices are an Indispensible Form of Pricing Management" in "PRICING THEORY AND PRACTICE" 1986, No 5) Clearly, this mechanically applies the price-fixing principles of "state unified pricing" to the fixing of maximum prices. This is worth discussion.

The price-setting principles in terms of a maximum price cannot be completely equated with the principles in setting state unified prices. The basic principle in formulating state unified prices is that prices are set in accordance with the demands of exchange at equal value and the changes in the supply-demand relationship. That is to say, price-setting must have value (production price) as its base and must fully consider the supply-demand relationship. The problem here is that often the value (production price) and the equilibrium price determined by supply and demand are not the same. Should we then set prices in accordance with value (production cost) or in accordance with the equilibrium price determined by supply and demand? This is a controversial question which has not yet been decided. I believe that we should set prices in accordance with the equilibrium price, as only thus will we be able to bring into play the due role of pricing in regulating production and consumption. (Footnote 3) (On this point, see my "Several Theoretical Questions in the Reform of the Pricing System" in "CHINA'S INDUSTRIAL ECONOMICS RESEARCH" 1987, No 2) The basic principle in setting a maximum price is that it must be lower than the equilibrium price at that time, and must not be higher than or equal to that equilibrium price. If it is, the maximum price will lose its significance, and will not achieve its aim of controlling price increases.

As to the compulsory nature or otherwise of the maximum prices, there are also different opinions. Some comrades hold that the maximum prices are a form of state-guided pricing and thus are guided planned prices and not mandatory planned prices. Therefore, they hold that the prices should not be compulsory. I am afraid that this idea is incorrect. For example, when the government, in order to control the rise of prices, imposes price freezes on various commodities, and sets maximum prices, these cannot be violated. If this stipulation was not compulsory, then enterprises and individuals would not need to implement it. How then could the price freeze be effective? Seen from the experiences in many countries, the maximum

prices for commodities are usually stipulated in a legal form through legislation, and both sellers and buyers in the market have to respect them, and not violate them. If they violate them, they will be punished in accordance with the law. Our country stipulates that all departments and all enterprises must implement the state-stipulated maximum prices. Otherwise they will be investigated and handled in accordance with the rules for violation of pricing policies.

The implementation of maximum prices will naturally have the following results: 1. A commodity shortage will occur. As the maximum price is lower than the equilibrium price at that time, the consumer's demand volume will exceed the volume the producers are willing to supply. Thus, a shortage will occur. 2. It will be necessary to introduce rationing. As shortages occur, it will inevitably result in consumer's rush-purchasing. To resolve this problem, the government will have to issue tickets according to population and introduce rationing. 3. A black market will appear. After rationing of a certain commodity is introduced, all consumers will be able to buy equal quantities of that commodity. However, people's demands for varying commodities are different, and some people will want to sell some of what they have, while others will want to buy some more. Thus a black market appears. Based on supply-demand laws, the black market price will not only be higher than the maximum price, but will be higher than the equilibrium price at that time.

With the implementation of a maximum price, the price mechanism will be obstructed. It will not be able to bring into play its role in regulating production and consumption. Thus short-term problems will long remain unresolved and may be execerbated over time. Thus, as an emergency measure, a maximum price can have a certain effectiveness in controlling prices, but used in the long term the disadvantages outweigh the benefits. Thus we need to select the appropriate time to use price freezes.

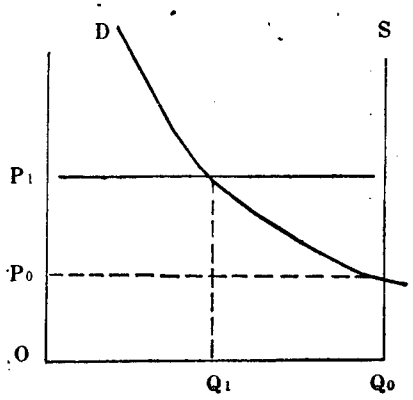
3. On Minimum Prices

For those commodities which for a time see supply exceeding demand and the price going down, in order to raise producer's income and guarantee the stable development of production, the state can adopt the method of setting minimum prices. The principle for stipulating minimum prices is that the minimum price must be higher than the market-regulated price at that time, and cannot be equal to or lower than the market-regulated price. If the minimum price is lower than the market-regulated price, it will not achieve the aim of raising producers' income and guaranteeing production.

Two other points need to be considered when setting minimum prices for commodities: 1. We must guarantee that under conditions of normal production and rational operations, the producers not only do not incur losses, but obtain normal profits. 2. We must guarantee a rational price parity between related commodities. If a minimum price is stipulated for agricultural products, then we must maintain a rational price parity between agricultural products and industrial products as well as a rational price parity between the various types of agricultural products.

Because the minimum price will be higher than the market-regulated price at that time, the result of implementing minimum prices will be that the volume producers are willing to supply is much greater than the volume the consumers are willing to purchase. This will result in product supply exceeding demand and there being great stockpiling. In order to maintain the minimum price of a particular commodity, it will be necessary to resolve the problem of surplus products. There are two schemes which can be chosen from:

The first scheme is that the government purchases the surplus products.



In the diagram above, D is the demand curve, S is the supply curve and the equilibrium price in the market is P subscript 0. Because the equilibrium price is on the low side, the producers are incurring losses or not making any profits. This is unfavorable to developing production and thus the government stipulates, at a higher level than the equilibrium price, the minimum price P subscript 1, to raise the income of the producers and to safeguard the development of production. Because P subscript 1 is quite high, the consumers cannot purchase the total volume supplied, Q subscript 0, and only purchase Q subscript 1. The excess amount of product supply is thus Q subscript 0 less Q subscript 1. To maintain the minimum price, the government adopts the method of purchasing the surplus products. The amount purchased would depend upon the amount of the surplus and would be decided by Q subscript 0 less Q subscript 1. The government would then store the products purchased and later at the right time, make arrangements for them. If the government does not purchase the surplus products, then through the two forces of demand and supply, the minimum price will not be able to be maintained and the price will fall back to P subscript 0.

The second scheme is that the government purchases at a high price and sells at a low price.

The government first purchases all the products at the minimum price P subscript 1, and then sells them to consumers at the equilibrium price P subscript 0. In this way, it can be guaranteed that the producers are getting the minimum price, and at the same time the products can be sold, and there is no stockpiling.

The above two schemes can both achieve the aims of maintaining the minimum prices, raising producers' incomes and safeguarding production. However, they have different advantages and disadvantages.

Analyzed in terms of the government's financial burden, in the implementation of the first scheme, the amounts which have to be expended include: The interest on the funds P subscript 1 (Q subscript 0 less Q subscript 1) needed to purchase the surplus products, storage costs, losses through wastage during storage and losses in future handling of the goods at reduced prices. In implementing the second scheme, the amount of funds necessary to expend is (P subscript 1 less P subscript 0) Q subscript 0. It can be seen that the financial burden would be lighter under the first scheme.

Analyzed in terms of the benefits the consumers would obtain, in implementing the first scheme, the price paid by the consumers is quite high (P subscript 1) and the amounts purchased and consumed are quite small (Q subscript 1). Under the second plan, the price the consumers have to pay is quite low (P subscript 0) and the amounts purchased and consumed are quite large (Q subscript 0). Thus under this scheme the consumers get greater benefit than under the first scheme.

Analyzing things in terms of whether products are stored or not, under the first scheme throughout the whole society production will exceed sales and the surplus will be stockpiled in the government's hands. Under the second scheme, production and sales will be balanced and there will be no stockpiling.

In brief, with the implementation of the second plan, although the financial expenditure will be a little greater, production and sales will be balanced, there will be no stockpiling, consumers will get more benefits and social and economic results will be quite good. Thus it is superior to the first scheme.

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REFORM IN FOREIGN TRADE, DOMESTIC ECONOMIC SYSTEMS

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[Article by Feng Yiling [7458 5337 3781], Li Huayun [2621 5478 0061], and Zhou Xiaochuan [0719 1420 1557] of the State Council Economic, Technological, and Social Development Research Center and State Commission for Restructuring Economic System: "A Discussion of Reforms in Foreign Trade Systems and External Coordination Relationship"]

[Text] Intensified reforms and deregulation in recent years have caused everyone to pay close attention to developments in reforms in the foreign trade system. To date, China has made several attempts to reform the foreign trade system and preliminary progress has been made. Overall, however, we have been unable to make a dent in the main shortcomings of the system, and we have been unable to eliminate the situation of "chaos after deregulation, inertia after centralization." Many people in different aspects of foreign trade are dissatisfied with this. Experience and lessons over the past several years have shown that a main reason for the failure to make substantive progress, besides the problem of improper attitude and ideology is, even more important, the lack of coordination between reforms in the foreign trade system and reforms in the domestic economic system. We feel that this problem involves the direction of reforms in these two aspects of the economy. If different directions are chosen for reforms in the domestic economic system and in the foreign trade system, the program of reforms in the foreign trade system centered on price and taxation measures will be hard to achieve. Even if we were to force reforms, they will not work and may even, to a substantial extent, cause reversals. This article will start with an analysis of directions chosen for reforms in the domestic economy and proceed with a theoretical analysis and study of the coordinated, non-foreign trade relationships needed in the price and taxation programs of the foreign trade system reforms. Furthermore, we will look at the interrelationships among enterprises, markets, and macroeconomic adjustments related to foreign trade system reform. In addition, we will explore other routes that may be chosen for reforms in the foreign trade system given the less than ideal relation with non-foreign trade components of the economy with which foreign trade system reform must coordinate.

I. Strategic Choices For Reform of the Domestic Economic System

There may be different paths by which we may move from the traditional model of the planned economy in China to a specific goal or model of reform. The path we choose, however, is of great significance for reform of the foreign trade system because, to a very great extent, it will determine the range of choices for paths and policies in foreign trade system reform. Thus, it is essential to analyze selection of paths for reforms in the domestic economic systems.

To aid in illustrating this issue, we have borrowed the classification method used by Hungarian economist Professor Janos Kornai, with whom everyone is quite familiar, using models 1A, 1B, 2A, and 2B for further elucidation. In terms of the overall process, reforms may take any of the following paths:

1. A path from 1A to 2B, with 1B as an interim step. Many have chosen or are tacitly consenting to this path.

2. A path from 1A to 2B, with 2A as an interim step. Apparently, a few advocate taking this path, but detailed plans and debates have yet to be seen.

3. Direction development from 1A to 2B. This would involve coordinated reforms among enterprises, markets, and macroeconomic regulation while avoiding tendencies toward 1B or 2A. The comrades who advocate this path can be divided into those who advocate a rapid transition and those who advocate transition at a moderate pace.

A rapid transition: This would begin with rather abrupt reforms in prices, taxes, and other areas and continue with appropriate reforms in three coordinating areas, of which are enterprises, markets, and macroeconomic regulation.

Transition at a moderate pace: If one assumes that society has a rather limited ability to withstand price changes, then appropriate slowing of the pace of price reforms and the use of a set of centrally-administered adjustment parameters formulated for a simulated market or supplementary market to compensate for inadequacies in the market will create the conditions for reforms in enterprises and for flexible changes in macroeconomic control, among other reforms.

Obviously, a rapid transition would require greater determination and careful deployment, while "small- and medium-size steps" would require the formulation of rather complex regulation during the reform and transition period.

There always have been differing opinions concerning what paths to take in reforming the domestic system. Looking back at the experience of the

past 8 years, we see we have not been very clear about the paths to reform.

After 1979, reforms in the industrial systems first of all involved expansion of the decisionmaking powers of enterprises and reform of profit distribution. Next, a profit responsibility system was widely implemented. Afterwards, in the area of financial administration reforms were implemented that can be called "eating separately." Central authorities and local areas collected revenues from enterprises under their respective administrative jurisdictions and in amounts at differing ratios. This proved quite effective and led to large-scale competition among areas, with each striving to set up their own systems. This also led local administrations to implement protectionist measures and other such phenomena. This in fact was a clear tendency toward model 1B. As a result, some have called it a "mistaken beginning." Around 1983, China began to implement a system of taxing enterprises instead of collecting profits and tried to use taxes to create relatively equal financial opportunities for enterprises. This aided in further transfers of authority to enterprises and helped in market development and encouragement of broader-based competition. This reform measure involved an attempt to bypass 1B and take a more direct route to 2B. Given a situation in which reforms in this area have not yet been perfected, some comrades have pointed out in recent years that because there have been excessive difficulty in coordinating the reforms with the three links (especially developing the market and shifting to indirect controls), reforms in the near term should shift in focus to leasing and contracted responsibility, which are carried out by different enterprises in different ways. The reforms should try to encourage all enterprises to combine decisionmaking authority, responsibility, and profits, although they may operate under rather unequal conditions and under a lack of rules and regulations. This of course would require administrative departments at all levels to formulate and coordinate managerial goals and administrative conditions. This sort of reform obviously has the characteristics of 1B.

As for reforms in enterprise systems, an issue is the relationship between enterprise ownership and managerial rights. Should we push for the separation of ownership from managerial rights? Under this system, we would not make reforms in public ownership but allow enterprises to manage themselves and assume full responsibility for their own profits and losses. Or does it involve a system of enterprise selfishness (meaning ownership by the enterprises themselves), with employees of the enterprises being given a substantial say in management and distribution. There are some basic differences between these two proposals. Given present development trends, reforms in economic systems have shown a conscious or unconscious tendency toward taking the path toward 1B and expanding ownership by enterprises themselves. On the surface, 1B may seem more rational than 1A and it would appear that moving from 1A to 1B would indicate progress in reforms, but actually there is a very great chance that the reforms would stagnate, a

situation that would be hard to pull out from. Janos Kornai pointed out that there are no successful examples of a transition from 1B.

Reforms in domestic economic systems in recent years have had many 1B characteristics. For example, there is more reliance on administrative coordination, especially for so-called "macroeconomic coordination" divided into levels by local governments. Most administrative decisions have been made in consideration of increased incomes and benefits for employees, and so on. Although renewed attention has been given to the concept of a fiscal tax sharing system and the separation of enterprise ownership rights and managerial rights, there have been no extensive discussion of adjustments in local government functions and the separation of the two types of authority. This makes it apparent that there is insufficient maturity regarding certain issues of overall direction in reforms in domestic economic systems and that the choice for the paths of reforms has been insufficiently clear and resolute.

II. The Urgency of Reforms in Foreign Trade Systems and Their Interdependence With Reforms in Domestic Economic Systems

China's original foreign trade systems were set up shortly after the nation was founded and in accordance with the Soviet model. The primary characteristics of this model were: a high degree of centralization and unified responsibility for profits and losses. Because this system basically was adapted to China's national economic system and trade characteristics during the early years after the nation was founded, it played a positive role at the time. However, as foreign trade and the national economy continued to develop, such a system became increasingly unable to adapt to the requirements of new situations. For example, because economic growth created enormous pressure on imports and because low-priced foreign exchange was used for the imports, there was no concern for results and waste. This required substantial increases in exports to earn foreign exchange, but the rigidity of export systems and the lack of economic accounting often favored the export of unfinished goods or processed goods at a rather preliminary stage, while it had negative effects on expansion of manufactured goods. The result was that China accounted for only a very small proportion of the enormous trade in finished goods in world markets. This not only forestalled improvement of China's unfavorable status in the international division of labor for a long period, but also involved an enormous loss of economic benefits. Such losses sometimes were so great as to make domestic economic growth partially or completely insignificant. These phenomena caused increasing numbers of people to see that expanded revitalization of enterprises, more direct dealing with international markets and engaging in import-export tasks with their own responsibility for profits and losses to maintain identity between import-export structures and macroeconomic benefits were necessary if they were to be able to obtain greater economic benefits from imports and exports. In such a situation, the urgency of reforms in foreign trade systems becomes acute and makes them essential.

Foreign trade's special intermediary status in social expanded reproduction means that it links production with consumption and links domestic markets with international markets. For this reason, it has a close relationship with all aspects of the national economy. Reforms in foreign trade systems concern not only the realm of foreign trade but also are intimately related to reforms in economic systems throughout China.

In a certain sense, the main idea behind reforms in foreign trade systems that have been brewing recently can be termed a price and taxation program for reforms in foreign trade systems. The core ideology is to employ purchase prices, exchange prices (or foreign exchange regulated prices), taxation (including more scientific indirect taxes, rationalized customs taxes, export return indirect taxes, etc.), fiscal policy and other unified economic levers, and they must be supplemented with the necessary administrative measures and popular coordination measures to create the conditions for self-responsibility for profits and losses in foreign trade and to offer export producing enterprises to practice enterprise-type management and to enjoy equitable financial conditions and develop normal and moderate competition. It does not, however, involve a dependence on administrative departments formulating one-on-one their own different economic measures for regulation. This basic idea of reforms in foreign trade systems must be matched with the selection of a path moving from 1A directly toward 2B for reforms in domestic economic systems, while fundamentally it is impossible to match up with the path involved in the transition from 1A to 1B, or it can at least be said that there will be rather substantial clashes during coordination of the two. The reason is that this could produce many intractable problems. For example, dependence on local governments at all levels to regulate enterprises "one-on-one" inevitably will make market parameters and macroeconomic regulation parameters useless. Contractual responsibility by levels for import-export tasks in turn will clash with macroeconomic benefits from improvements in import-export structures, and it could lead to a new cycle of "deregulated, chaotic, recovered, dead." If after further clarification of the direction of domestic system reforms we actually choose to take the 1B transition path, reforms in foreign trade systems inevitably will consider the possibility of other substitute programs.

The point stressed in this article is that we should evaluate and debate the actual advantages and disadvantages as well as the prospects of each of the paths to take for reforms in domestic economic systems from the perspective of foreign trade. The justification is that comprehensive analysis and intensive research and design for the medium and long-term goals for system reforms in China to decide upon strategic choices of major direction are extremely important to assure progress in reforms in domestic economic systems and reforms in foreign trade systems and avoiding major repetition.

III. The Interdependence of Reforms In Foreign Trade Systems on Reforms in Prices and Taxes

During national economic system reforms, reforms in price systems and reforms in taxation systems were tied quite closely to reforms in foreign trade systems.

1. The interdependence of reforms in foreign trade systems on reforms in price systems.

For a long time, product price systems in China formed a slanted structure toward international price systems, in that the prices of unfinished goods and some resource products were too low, while the prices of finished products were too high. Such a price system objectively would promote the export of unfinished goods and restrict the export of finished goods. Under a slanted price structure, it was unimportant at what level exchange rates were set. There always were some export products that suffered sizeable losses while others made excessive profits. The result was that only a small number of products could be calculated directly on the basis of the exchange rate. Given a situation of no basic reforms to date in this price system, attempts to reform foreign trade by the downward transfer of managerial authority to make import and export enterprises responsible for their own profits and losses inevitably would be the direct cause of a clash between improvement of import-export structures and lead to a tendency to export large amounts of unfinished goods and import high profit finished goods (including consumer durables). It is apparent that the effectiveness of reforms in foreign trade systems depends on progress in rationalization of domestic price systems.

Second, reforms in foreign trade systems should be employed to achieve greater comprehensive economic benefits from imports and exports, and they should bring about the rational evolution of import-export amounts and structures. This would require all sorts of domestic economic resources (including natural resources, energy, raw materials, basic facilities, manpower and talent, capital, foreign exchange and so on) that can be rationally redeployed between all domestic sectors and the import-export sector. Besides requiring rather flexible systems domestically, readjustments in the deployment of these resources first of all requires a more-or-less rational price system. Without mechanisms to readjust the deployment of domestic resources and accurate price signals, reforms in foreign trade and capital imports will have no apparent positive effects.

In contrast, reforms in foreign trade systems play a controlling role in the rationalization of price systems. In the current international economic environment, if we wish to be oriented toward both the domestic and international markets and use domestic and international resources, a failure to employ the appropriate international market prices would

make it impossible to rationalize domestic prices. If we carry out price reforms only in relation to domestic supply and demand, the correct outcome will be impossible. Second, rationalization of domestic price systems to a great extent implies the rationalization of domestic supply structures and demand structures. This point, however, cannot be established individually and detached from import-export structures. Moreover, the experiences of system comparisons show that dependence on more scientific planning for fundamental improvement of import-export structures cannot be successful. Thus, the motivating force for rationalization of import-export structures will come mainly from reforms in foreign trade systems. This will lead to rationalization of domestic prices and in turn they will depend on reforms in foreign trade systems (of course, fundamental rationalization of domestic price systems is determined mainly by domestic policies, the economic environment and other measures associated with the reforms, but this article will not dwell on this point).

It deserves mention that China (as well as India and Brazil) are rather special large countries. Theoretically speaking, the interdependent relationship between reforms in foreign trade systems and price systems should be weakened a bit. However, because the volume of imports and exports accounts for a considerable proportion of the gross domestic product, the above law is applicable.

2. Progress in reforms in foreign trade systems depends on progress in the rationalization of reforms in tax systems.

Given that no substantive steps have been taken in domestic price system reforms in China to date and that progress in the rationalization of price systems does not come overnight, we must explore the other possibility that the interdependent relationship between reforms in foreign trade systems and price reforms might be separated to a suitable degree. Taxation levers play a hard-to-ignore role in this area.

We know that in a situation of the upward transfer or retention of industrial enterprises profits, producing enterprises are unable to employ tax levers to regulate the requisition and return of import-export taxes. Thus, the only substitute for supplementing directive planning of material exports is to control the purchase prices for some commodities. Although major breakthroughs in calculating balances in recent years have made it theoretically possible to calculate a group of objectively superior purchase price standards (product classifications still cannot be too precise), they still are restricted by the current level of planning work in China and cannot be used. For many years, purchase prices for China's export products were determined mainly on the basis of the historical situation of domestic prices or by using certain base figures, with additional readjustments according to changes in domestic and foreign markets. This often gave the standards for controlling purchase prices a certain subjectivity and they depended on the policies of administrative departments. At the same time, they

inevitably led to the formation of a sort of soft restriction, in that negotiated and exchanged prices could be set for enterprise profits and losses. China's international trading partners not only find this method hard to accept, but moreover, given the lack of fundamental reforms in import-export systems and the fact that import starvation can be found within and outside of plans, it would be quite easy for a situation to appear in which no consideration is given to current export capacities and international market conditions in a rigid push to raise export plan tasks. Moreover, this situation in turn would lead to weaker control over export purchase prices.

China began in 1983 to implement measures to "shift from profits to taxes" to create the conditions for solving the problems outlined above and having good reforms in foreign trade systems. Appropriately designed product taxes and some "primary" value-added taxes (which at present are actually a sort of value-added product tax) would make it possible to alleviate somewhat the negative effects of domestically slanted price systems on import-export structures and economic accounting (some commodities implement different foreign exchange retention rates and different bonus rates or bonus conditions that can supplement or strengthen this sort of regulative effect). From the perspective of systems engineering, prices (including exchange prices, profit rates and so on) should coordinate the activities of every system. Given a situation of irrational prices, however, installation of product taxes and other first group auxiliary parameters also could make it possible to coordinate the activities of each system under rather low performance standards. The enlightening thing about this sort of parameter coordination method is that prior to a truly suitable arrangement of domestic price systems, it also is possible to employ the tool of taxation to create the transitional conditions for reforms and make enterprises take the step of preliminary independent accounting and responsibility for their profits and losses. In addition, it would make regulation by requisition and return of taxes more adaptable to changes in domestic prices and taxes.

What must be emphasized here is that if tax levers are used to solve the contradiction between international and domestic price systems during the transitional period of reforms, besides requiring that there be truly rational designs for product tax systems, it also would require the installation of a rational exchange rate, which is an exchange rate that would provide definite support for balanced international income and expenses. The reason is that a rational standard exchange rate is required if returned taxes are to play an important role. Exchange rates have become the basis for economic calculations now, so they have an important role in achieving enterprise accountability for profits and losses.

It also should be pointed out that there has been a contradiction in recent years between the overall direction of certain measures for reform of domestic systems and the "shift from profits to taxes"

outlined above, which is to say that several measures for strengthening and perfecting the transition from profits to taxes have not kept pace. This situation will have serious effects on foreign trade price and tax reforms. The main measures are:

1. Adopting a method of requisition to regulate taxes to take from [enterprises] that have too much and give to those that have too little. Because the essence of regulating taxes is unclear, in principle export [taxes] could not be returned, while import [taxes] could not be requisitioned. This would make the original hope of using product taxes to alleviate differences in price systems and using requisitioned and returned taxes to create the conditions for reforms in foreign trade systems a partially useless proposition. In summary, the incompleteness of product tax designs would leave a lot of future problems for beginning reforms in foreign trade systems, especially in depending mainly on the requisition and return of taxes to achieve reforms in enterprise-type management.

2. Because financial authorities have "divided up the stoves to eat" without distinguishing between types of taxes, product taxes also have been included within the realm of local income following the shift from profits to taxes. To obtain more income, the selection of product and investment directions by local governments often have run counter to the overall interest. This not only has made it difficult to implement the principles of readjustment in industrial structures, but also has strengthened the motives of local governments to interfere with enterprises, and the enterprises still have been unable to get rid of their characteristics of dependence on higher authorities and soft financial restriction.

3. In a situation of no fundamental reforms in price systems, beginning in 1986, indirect taxation was changed without coordination and independently into value-added taxation, and the number of tax rates for regulation also was reduced. This method implied that a substantial proportion of profits would be turned over to enterprises on the basis of unequal profit transfers. This method not only obstructed correct guidance in the orientation of enterprise products and investments, but also made it a perfectly justified duty of apportionment and administrative departments to coordinate the taking from those with too much and giving to those that have too little. For example, when implementing product taxes for a certain intensively-processed manufactured good A, the total product tax was 30 percent, but after it was changed to a value-added tax, consideration was given to the need to unify tax rates, so the value-added tax rate for product A was set at 14 percent. In principle, the price of product A should have been lowered or deregulated in turn. If the price was not changed, a new indirect tax (like a special consumption tax) should have been installed. In this way, they could be returned completely at the time of export and would not affect exports. The actual work method, however, was that no basic change was made in price management systems, and there were no

fundamental changes in price levels and no installation of the other necessary indirect taxes, which forms a sort of superprofit. This partial superprofit may be taken by the state in different forms using different forms and non-standard methods, or it may be apportioned to administrative authorities at higher levels, with an extremely small proportion becoming newly-added profits for the enterprises. These three parts are impossible or very difficult to return at the time of export, especially the various types of apportionment. The result is that given a situation of unchanged prices, simply expanding the implementation of value-added taxes would lead to incomplete tax returns (for example, formerly 30 percent could be returned for product A, but now only 14 percent can be returned). This has a negative effect on economic accounting in exporting enterprises and on expanded exports.

These reform measures that are so unclear or not coordinated have negative effects on the implementation of price and taxation programs for reforms in foreign trade systems, but these shortcomings should and can be completely rectified. From the perspective of the objective need for reforms in foreign trade systems, China's actual progress in "shifting from profits to taxes" can only be said to have extremely grudingly created the preliminary conditions for beginning to reform foreign trade systems based on price and taxation programs, which makes it possible to implement responsibility for profits and losses and enterprise-type management in foreign trade enterprises to cause preliminary improvements in import-export structures. The effects of this economic benefit are very limited, however. The reason is that additional increases in economic benefits necessitate readjustments in the deployment of domestic economic resources and in specialized production and the division of labor under a prerequisite of opening up to the outside world. This requires that domestic prices be more rationalized and that total requisitions of product taxes and non-standard value-added taxes must be converted to standardized value-added taxes. It is only under such conditions that reforms in foreign trade systems will be able to progress, and certain internal clashes between current reforms in domestic systems and reforms in foreign trade systems can be overcome gradually during the progress.

IV. The Need for External Coordination of Price and Tax Programs for Reforms in Foreign Trade Systems

Price and tax programs for reforms in foreign trade systems are focused on the full use of the regulating role of prices, taxation and other economic levers. Their normal operation can occur only in certain conditions that exist within domestic systems, so they of course place specific demands on coordination with reforms in domestic systems.

First, they place rather strict requirements on domestic production and the financial tasks of foreign trade enterprises, or they must at least assume a tendency toward rigidity through reforms. In reality, this involves the expansion of certain decisions on regulating principles for

enterprises. Some of these principles come from markets, while others come from unified policy tools (economic levers), and moreover they cannot be subject to any substantial degree to interference by the subjective will of administrative departments, which is to say that they cannot be model 1B.

Some comrades have felt that it would be possible to establish export task restrictions and normal competition boundaries for foreign trade and producing enterprises by employing a principle of unified purchase prices, with requisitioned and returned taxes and exchange prices (or foreign exchange regulated prices), which in turn would achieve enterprise-type responsibility for profits and losses at the same time as there was downward transfer of managerial authority. This is the main idea between present programs for reforms in foreign trade systems. This article feels that compared with the system of "eating from the big common pot," implementation of the reforms outlined above would tend to rigidify financial restrictions on enterprises, but still to an inadequate degree. The reason is that if we exclude this point, there are no standards for the collection of or exemption from other things enterprises are subject to, such as foreign exchange retention, interest rates on loans, loan conditions, other taxes (like direct taxes), amount of parity materials supplied under a dual-track price system, coercive employment burden and so on. Moreover, they would be subject to bargaining, so they can be called soft. As a result, the small number of restrictions envisaged in the above discussion would play only an insignificant role or even no role at all. In such a situation, the downward transfer of administrative authority still could lead to the appearance of improper competition and create chaos. From the perspective of imports, the idea behind price and tax programs for reforms in foreign trade systems is to strengthen exchange prices (or foreign exchange regulated prices), customs taxes (including domestic industrial and commercial taxes collected by customs), import license bids, negotiable leasing and other measures, and to use imports to set up a proxy system to strengthen economic accounting by importers. If, however, domestic enterprises are faced with a large number of restrictions in the aforementioned other areas like exemption from customs taxes that are held "flexibly" on such a wide scale at present, then like the situation with exports, they also will be ineffective.

To rigidify financial restrictions on enterprises, reforms are needed in at least the following areas:

1. Reforms in taxation and financial administration systems. Comprehensive regulations on tax collection (including alleviation of irrational product taxes in product prices, user fees on property and resources and so on) can be substituted for administrative regulation. At the same time, a tax sharing system should be implemented according to the nature of the taxes and the functions of local governments should be readjusted so that they no longer run counter to macroeconomic interests in product orientation, investment direction and import-export

orientation because they pursue only income. On this foundation, action should be taken to extend price reforms and substitute more objective standards of market competition for artificially formulated regulations to reduce to a minimun the dependence of enterprise policymaking on higher level departments.

2. Carry out reforms in enterprise systems. On the one hand, there should be action to expand the separation of ownership rights from managerial rights. Eliminate direct jurisdictional relationships of government over enterprises and strengthen plant manager responsibility for enterprise profits. On the other hand, prior to the formation of a labor market, we should implement a total wage bill management method modelled on market laws to link the total wage bills of enterprises to the labor contributions of their employees.

Looking at reforms in China in recent years, during the period of testing and installing programs for "shifting from profits to taxes" and active measures to develop consumer product markets, financial restrictions on domestic producing enterprises obviously became more rigid. An identical direction needed in foreign trade price programs. In the past 2 years, however, the rapid expansion of a separation of administrative authority and the concurrent adoption of a "dual track system" in the area of price reforms were unable to rigidify financial restrictions on enterprises, and there have even been some retreats.

Second, price and tax programs for reforms in foreign trade systems makes domestic enterprises seek mainly profits and increases their sensitivity to profits. The profits referred to in this context should not be indices of the gross value of output or total employee incomes, or the short-term profits of enterprises. They should instead be long-term total enterprise profits under guidance by macroeconomic control parameters (including import-export structure guidance parameters), which is to say that the achievements of enterprise management should be evaluated in terms of sustained profits. The bonuses and welfare of enterprise employees can only be taken out of net income that is created by the contributions of their labor. They cannot be derived directly or indirectly from other channels.

If enterprise reforms develop in the direction of self-ownership, then the primary goals of the enterprises would be to pursue maximum employee incomes and welfare. In such a situation, the effects of enterprises on export award policies (like bonus policies, unit export product wage content policies, etc.) will be greater than those economic levers that play a direct role in enterprise profits, or they may even conceal the latter type of regulative role. This problem appeared in the export reward policies implemented in China in 1986.

It should be pointed out from the perspective of greater use of China's foreign trade advantages that our most important advantage in the export industry is low labor costs. If there is a chaotic relationship between

real employee incomes and their labor contributions, it would be impossible to utilize microeconomic accounting to exploit these sorts of comparative advantages. A dangerous trend that has appeared in China over the past few years, however, is that wages have risen too quickly in enterprises related to import-export and foreign investments. This is a method which wipes out our comparative advantages and also is one of the reasons for the less than ideal situation in some foreign investment enterprises in China at the present time.

Third, there should be a more unified market or at least a strictly separate market before it will be possible to guarantee the rationality of market signals. In the area of imports, there should be gradual implementation of a complete and thorough proxy system, which is to say that there should be complete monetarization of the construction of needed state key projects. This does not, however, involve the use of low prices (including low exchange prices), no prices and tax-exempt resource allocations to provide this sort of guarantee.

Only in a unified market system is it possible for foreign trade and import-export producing enterprises to face equal markets and for enterprises to face identical financial accounting and equal competition. Under a unified foreign trade price and tax policy, import-export proxy systems can be implemented more easily and at the same time directive-type import-export planning can be reduced to a minimum.

In summary, price and tax programs for reforms in foreign trade systems place rather high demands on external coordination. Although to date many problems remain to be explored further from an integrated theoretical and practical perspective, their interdependence with reforms in domestic systems is extremely apparent. For this reason, the strategic choices for an overall orientation of reforms in domestic systems should be determined early and firmly.

V. Actively Explore the Existence of Other Routes for Reforms in Foreign Trade Systems

A considerable number of comrades feel that another path should be chosen for reforms in domestic systems in the short run. They favor slower price, tax, and other reforms as well as slower establishment of complete markets and standardization of indirect controls. They advocate first of all administrative coordination by levels under equal conditions for enterprises practicing different contractual responsibility to create the internal operational mechanisms of enterprises, with enterprises retaining their own ownership systems while expanding the decisionmaking rights of enterprises and thereby invigorating them. Under this situation, it would be difficult for reforms in foreign trade systems to adhere to the implementation of price and tax programs and they should actively explore the corresponding systems of contractual responsibility. At the same time,

we should earnestly study certain special problems in dealing with systems of contractual responsibility in the realm of foreign trade and think of ways to solve them. This article proposes the following problems and unfinished ideas that should be studied.

1. Compared with common contractual responsibility in domestic enterprises, it would seem that foreign trade enterprises would have to adopt forms of contractual responsibility before they would be able to carry out relatively independent economic accounting. However, contractual responsibility in foreign trade enterprises is much more complex than contractual responsibility in domestic producing enterprises and the quality of their economic results also is restricted by greater numbers of indeterminate factors, so there must be ideological preparation for this. The main reasons are:

First, contractual responsibility in domestic enterprises often involves conditions of a specified external environment, on the one hand meaning that there should be no fundamental changes in domestic price, taxation, banking, finance, and other systems. On the other hand, it would require foreign trade departments to continue to bear the risk of changes in international markets and provide financial aid to domestic enterprises as a "buffer." This would mean that foreign trade enterprises still would have to deal both with international markets and with domestic enterprises, and constantly changing international market prices would be converted to fixed domestic prices and stipulated supply channels. In a situation in which contractual responsibility in domestic producing enterprises requires that foreign trade enterprises play a regulatory role, the most direct complexity in systems of contractual responsibility in foreign trade enterprises first of all would be manifested in the need to utilize many specially determined calculations to deduct those various indeterminate factors, while the difficulty and complexity of such calculations are apparent.

Second, the amounts of inputs and outputs are limited in most of China's producing enterprises, so it is easier to determine the conditions of contractual responsibility. In a situation in which foreign trade enterprises are undergoing specialization and a division of labor, they will have to deal with thousands of commodities and ever-increasing numbers of product specifications. Under such conditions, there should be continual improvements in import-export structures based on the needs of China's import-export development strategies. This is especially true of the need to shift export commodity structures in the direction of intensive processing of finished goods, and there must be rather complex methods implemented during the period of contractual responsibility.

Third, China's present capacity for controlling overall macroeconomic equilibrium remains weak, especially in model 1B and under conditions of self-ownership systems in enterprises, so this sort of control may become even more difficult to achieve. Moreover, contractual

responsibility in foreign trade enterprises would be certain to affect foreign exchange balances, fiscal balances, the scale of credit and other issues. As soon as changes occurred in macroeconomic conditions, the conditions of contractual responsibility in foreign trade enterprises probably would change, making it quite hard to actually fulfill already-signed contractual responsibility contracts. For this reason, the indeterminate nature of macroeconomic equilibrium also increases the complexity of contractual responsibility in foreign trade enterprises.

The above analysis illustrates the complexity of the goals and conditions of contractual responsibility in foreign trade enterprises, and ideological preparation is needed to employ a whole series of the most advanced operation and technologies. Otherwise, the gradual appearance of all sorts of problems would make it hard to sustain contractual responsibility systems.

2. When foreign trade companies implement contractual responsibility, there are serious clashes between gross [output] tasks and structural tasks. Thought could be given to the establishment of a large scale export licensing system to ensure improvement in import-export structures and forestall the loss of high profits from certain trade links. Because microeconomic policymaking under a contractual responsibility system cannot select an entirely correct import-export structure, we must strengthen administrative or semi-administrative management in the macroeconomic realm. To give foreign trade enterprises more flexible policymaking authority within their own contractual responsibility conditions, excessive administration of the issuance of licenses should be avoided. For this purpose, consideration can be given to issuing some of the licenses by seeking bids or employing an exchangeable form of secured bids. The number of export licenses first of all should consider the needs of China's industrial development policies and take full stock of the need for overall national equilibrium. This will demand major improvements in import-export planning work, and it will require complete familiarity with optimum planning methods for a deregulated economy and full understanding of dynamic information processing and correction methods. Failure to reach rather high levels will make it difficult for the licenses to embody fully macroeconomic benefits. Unfortunately, such high demands placed on planning work levels exceed realistically attainable levels in China at the present time.

3. In a system with contractual responsibility by levels from top to bottom, an administrative division of authority is of course quite necessary. At the same time, a separate state to a certain extent in domestic markets is unavoidable. At this time we are faced with two choices: the first is to demarcate markets clearly and allow monetary independence for every market and impose barriers (once considered for Shenzhen) and permit every province to hold the tools of macroeconomic regulation and receive most of the funds from the exports of foreign

trade enterprises for their own purposes, which would promote independent operations of foreign exchange markets among the provinces. The advantages are that, in a longer term view, it may be possible to form relationships among the various domestic markets similar to the unified market relationships based on mutual openness among the members of the Common Market in Western Europe to develop in the direction of specialized production and the division of labor, thereby guaranteeing the benefits of scale economies. By that time, there would be a tendency to eliminate barriers to interprovincial trade and the end result would be the possibility of forming competition almost like that under unified market conditions, which would provide obvious economic benefits. The shortcoming is that from a political perspective, there is no possibility of such a thing being implemented in the near future. If it was possible, it would not be easy to eliminate regional protectionism without some experiencing some hard experiences and lessons. As a result, it may be that the economic results would not be quite bad. The second choice is omit monetary independence and barriers and to allow local areas to adopt measures on the basis of continuing present policies for covert administrative interference to impede circulation and separate markets. At that time, central authorities still would have to redistribute the retained proportion of export exchange income fairly on the basis of some principle. The advantage is that current policies would be sustained rather well, which would make acceptance easier by all areas, especially local governments at all levels. The shortcoming is that it reinforces administrative interference in enterprises and makes it even harder to invigorate them. At the same time, a state of market separation would create incorrect price signals that inevitably would cause blind [uncontrolled] construction of a large number of small scale investment projects, and in turn would lead to a substantial decrease in the results of investments throughout China.

4. To deal properly with the motivations of management under a system of enterprise self-ownership, export encouragement under systems of "contractual responsibility for everyone" mainly would require the adoption of policy measures to deal with the issue of employee incomes. Because it is quite possible that a system of enterprise self-ownership may coexist with model 1B, the primary goal in managerial motivations of enterprises under a system of self-ownership is to maximize employee incomes and welfare. Added to the manipulability of enterprise profits under model 1B (in that they can be manipulated through administrative measures), the result is that the role of the economic levers that deal directly with enterprise profits is unclear, while the roles of the linkages of employee wages and bonuses with the results of foreign trade, determination of the wage content per unit of export commodity and other measures are more obvious.

It deserves explanation that certain of the measures and ideas outlined above do not deal directly with contractual responsibility systems. The early reforms employing price and tax programs to reform foreign trade

systems also are applicable and may serve as references for stronger foreign trade management during the present stage.

In summary, given the preconditions of a domestic system reforms oriented toward contractual responsibility systems, discussions based on the ideas outlined above mean that foreign trade system reforms must search for the corresponding coordinated programs. Because of time limitations, however, research analysis and exploration in this area have been insufficient and urgently require reinforcement. Compared with current programs, the method of medium and long-term contractual responsibility (and not a short-term transition) in foreign trade systems is still very immature.

To summarize our discussion, reforms in economic systems in China at present are faced with certain major strategic choices that concern not just whether or not the reforms will be able to develop smoothly and intensively, but also may affect the temporal progress of the reforms. As for reforms in foreign trade systems, the selection of a path for reforms in domestic systems is very important and will determine to a substantial extent the direction and path of foreign trade reforms. It also will directly effect the success of the reforms. From the perspective of the need for reforms in foreign trade systems, it is the opinion of this article that reforms in domestic systems should focus on the three links of enterprises, markets and macroeconomic control to adopt systematic, permanent and coordinated reforms They can no longer remain stalled at partial, temporary and experimental reforms. This also is to say that on the basis of perfection of the "shift from profits to taxes," reforms in domestic systems should make the appropriate speedups in reforms in prices, tax collection, finances, banking and other areas, as well as appropriate acceleration of the pace of market construction and perfection and the implementation of indirect control to push enterprises on the basis of a separation of the two types of authority to work for greater perfection of independent accounting and independent decisionmaking. At the same time as the reforms outlined above are implemented, it may be possible for price and tax programs for foreign trade reforms to take a definite and effective step toward the fundamental achievement of enterprise-type management and responsibility for profits and losses in foreign trade enterprises.

12539/09599

GOOD EXPORT MARKET SEEN FOR ELECTRIC FANS

40060066 Hong Kong WEN WEI PO in Chinese 16 Nov 87 p 22

[Article: "China Plans To Expand Production of Electric Fans in View of Export Potential"]

[Text] Sun Shurong, department head from the Ministry of Light Industry's Household Appliance Bureau, told a WEN WEI PO reporter yesterday in Shenzhen that electric fans are currently China's largest category of household appliance exports. Western Europe and the United States are essentially not producing them and Japan's production is likewise limited. Consequently, China has a considerable advantage in the world market. According to regulations, the production of commodities that are in great demand both domestically and abroad will be actively developed in order to corner a portion of the export market. Currently, domestically-produced electric fans are competitive to varying degrees with the different kinds of fans produced in Taiwan and South Korea. To ensure product quality, domestic producers must improve the quality standards of raw and processed materials used in production. As a result, costs and prices will show a slight increase. Sun Shurong, however, contends that in terms of technology and quality, domestically-produced fans will remain competitive.

Sun Shurong said that China currently does not produce a large variety of domestically-produced household appliances but rather concentrates on a few major items. Of these, washing machines sold to Southeast Asian and African countries are of fair quality and possess great potential for development. China still relies on imports of spare parts for refrigerator production. Currently, China has five compressor production lines which are mainly imported from Japan and Italy and are set up in Beijing, Guangzhou, Shanghai, Xi'an, and Zhuhai. She said by 1990 an estimated 6.5 to 7.5 million refrigerators will be produced and that the number of compressors produced will be even greater.

China has a very large domestic market for household appliances and should base production on social demand. Sun Shurong felt that time is still needed to resolve the problem of how to divide up production for the domestic market and for exports. In addition, she also felt that it is necessary to improve packaging and quality standards and to conform to the standards of different countries. Other types of work should include personnel training and developing trade and information channels that will further develop China's ability to produce its own goods.

RURAL FINANCES IN FIRST QUARTER OF 1987

Beijing NONGCUN JINRONG [RURAL FINANCES] in Chinese No 15, 1 Aug 87 p 20

[Text]

BALANCE SHEET OF AGRICULTURAL BANKS

unit: 100 million yuan

ITEM	TOTAL	COMPARED TO END OF 1986 (Nov)
Total Deposits	1,199.24	-15.06
1. Industrial, Commercial Enterprises	215.55	-0.42
2. Town, Township Enterprises	42.32	-3.34
3. State Agriculture	75.81	-7.72
4. Collective Agriculture	10.17	0.23
5. Deposits of Credit Cooperatives	400.00	-94.92
6. Town Deposits	339.85	82.17
7. Other Deposits	115.54	8.94
Self-owned Funds	230.88	5.62
Other	1,112.53	60.61
Balance	2,542.65	51.17
Loans	1,925.59	-60.37
1. Industrial Enterprises	112.34	12.53
2. Commercial Enterprises	1,042.20	-199.78
3. Fixed Assets	40.67	2.22
4. Town, Township Enterprises	338.36	50.70
5. Collective Agriculture	71.56	-6.42
6. State Agriculture	102.10	12.59
7. Rural Households	86.36	22.25
8. Credit Cooperatives	60.69	18.61
9. Other Loans	71.31	26.93
Reserves	38.18	8.72
Other	578.88	102.82
Balance	2,542.65	51.17

BALANCE SHEET OF CREDIT COOPERATIVES

unit: 100 million yuan

ITEM	TOTAL	COMPARED TO END OF 1986 (Nov)
Total Deposits	1,081.68	119.34
Collective Deposits	71.51	-12.36
Deposits of Town, Township Enterprises	85.54	-6.14
Rural Household Deposits	903.24	137.12
Other Deposits	21.39	0.72
Self-owned Funds	77.06	13.51
Other	301.22	102.21
Balance	1,459.96	235.06
Loans	852.15	283.63
Loans to Collectives	60.88	16.24
Loans to Town, Township Enterprises	365.20	99.35
Loans to Rural Households	426.07	168.04
Other	425.44	46.06
Transferred to Banks	182.37	-94.63
Balance	1,459.96	235.06

CSO: 4006/18

BRIEFS

JIANGSU RURAL SAVINGS--As of 31 October, rural saving deposits in Jiangsu Province exceeded 10 billion yuan, an increase of 2.4 billion yuan over the end of 1986. Per capita savings were 194.47 yuan. [Excerpt] [Beijing JINGJI RIBAO in Chinese 16 Nov 87 p 2]

COTTON PROCUREMENT--As of 31 October, China had procured 2,486,000 tons of cotton, an increase of 670,000 tons over 1986. [Excerpt] [Beijing JINGJI RIBAO in Chinese 10 Nov 87 p 1]

JIANGXI AGRICULTURAL INVESTMENT--From January to September, Jiangxi Province invested 232 million yuan in agriculture, a 5.4 percent increase over 1986. Agricultural loans totaled 2.232 billion yuan, a 19.8 percent increase over 1986. The World Bank provided $30 million to develop uncultivated red soil. [Excerpts] [Nanchang JIANGXI RIBAO in Chinese 16 Nov 87 p 1]

NATIONAL AQUATIC OUTPUT--From January to September, aquatic output totaled 5,370,000 tons, a 17.74 percent increase over the same period in 1986. [Excerpt] [Beijing JINGJI CANKAO in Chinese 26 Nov 87 p 1]

JIANGXI PIG PRODUCTION--As of the end of August, the number of pigs in inventory in Jiangxi Province was 12,990,000, a 4.3 percent decrease from the same period in 1986, but a 6.89 percent increase over May 1987. The number of sows and piglets increased 7.67 percent and 25.86 percent respectively over May. [Excerpt] [Beijing NONGMIN RIBAO in Chinese 1 Oct 87 p 2]

ZHEJIANG TEA OUTPUT--In 1987, tea output in Zhejiang Province may be more than 100,000 tons, a slight increase over 1986 (104,500 tons). The supply and marketing system in Zhejiang has procured 75,000 tons and 50 percent was sold outside the province. [Excerpt] [Beijing NONGMIN RIBAO in Chinese 1 Oct 87 p 2]

SILK EXPORTS--In the first half of 1987, silk exports from China totaled $650 million, a 31.8 percent increase over the same period in 1986. [Excerpt] [Kunming YUNNAN JINGJI BAO in Chinese 7 Oct 87 p 3]

HEBEI WINTER WHEAT--As of 12 October, Hebei Province had sown 31,275,000 mu of wheat, accounting for 84.4 percent of the plan. [Excerpt] [Shijiazhuang HEBEI RIBAO in Chinese 15 Oct 87 p 1]

HUNAN GRAIN BASES--During the 7th 5-Year Plan, Hunan Province will set up commodity grain bases in Liling, Hengdong, Linli, Ningxiang, Xiangtan, and Shuangfeng Counties. The total cultivated grain area is more than 4 million mu. During the first 2 years of the 7th 5-Year Plan, the national and local government will provide 22,000,000 yuan to accelerate construction of the bases. [Excerpt] [Changsha HUNAN RIBAO in Chinese 23 Oct 87 p 1]

HEBEI EGG SUPPLIES--By the end of July, Hebei Province had procured 32,310,000 kilograms of eggs, an increase of 11,910,000 kilograms over 1986, or 58.4 percent. Of this amount, 4,750,000 kilograms were sold, 13,140,000 kilograms were shipped to other provinces, and 2,040,000 kilograms were exported. At the end of July, 9,650,000 kilograms were in storage, an increase of 2,290,000 kilograms over the same period in 1986, or 31.1 percent. [Excerpt] [Beijing NONGMIN RIBAO in Chinese 12 Sep 87 p 2]

RURAL SAVINGS, LOANS--As of the end of August, saving deposits in agricultural banks and credit cooperatives throughout China totaled more than 200.8 billion yuan, an increase of more than 8.32 billion yuan over the same period in 1986. Loans for agricultural development totaled more than 285.6 billion yuan, an increase of 23.3 billion yuan over the same period in 1986. Investment in grain and cotton production increased from 55 percent in 1986 to 68 percent, and loans for town and township enterprises increased 57.3 percent. [Excerpt] [Beijing NONGMIN RIBAO in Chinese 28 Sep 87 p 1]

SICHUAN HYBRID CORN--In 1987, Sichuan Province planted 19 million mu to hybrid corn, an increase of more than 1 million mu over 1986. Hybrid corn accounts for three-fourths of the total corn area in the province. [Excerpt] [Chengdu SICHUAN RIBAO in Chinese 17 Sep 87 p 2]

QINGHAI PROCUREMENT LOANS--As of the middle of August, agricultural banks in Qinghai Province had loaned more than 89,500,000 yuan to supply and marketing departments for the procurement of farm and sideline products, a 12 percent increase over the same period in 1986. In addition, agricultural banks have loaned 69,330,000 yuan to commerce departments to improve the supply of manufactured goods and capital goods to rural areas. [Excerpts] [Xining QINGHAI RIBAO in Chinese 13 Sep 87 p 1]

QINGHAI PEASANT INVESTMENT--According to a survey of 240 rural households in 8 prefectures in Qinghai Province, in the first half of 1987, peasants invested 183,124 yuan in production; per capita investment was 120.79 yuan, a 200 percent increase over the same period in 1986. Living expenses were 194,705 yuan; per capita expenses were 128.43 yuan, a 38.86 percent increase over the same period in 1986. [Excerpts] [Xining QINGHAI RIBAO in Chinese 31 Aug 87 p 1]

QINGHAI GRAIN OUTPUT--Estimated gross output of grain in Qinghai Province for 1987 is 1 million tons. [Excerpt] [Xining QINGHAI RIBAO in Chinese 19 Oct 87 p 1]

HUNAN PIG PRODUCTION--As of the end of September, 18,874,000 pigs were removed from inventory in Hunan Province, an increase of 840,000 pigs over the same period in 1986, or 4.7 percent. The number of pigs in inventory was 28,384,000, a 1.3 percent increase over the same period in 1986. The average price for a piglet in September increased 20 percent over June. In September, the number of sows in inventory had increased 20,000 over the second quarter of 1987. [Excerpts] [Changsha HUNAN RIBAO in Chinese 30 Oct 87 p 1]

NINGXIA FERTILIZER OUTPUT--From January to August, Ningxia produced 74,000 tons of urea. The region also produced more than 120,000 tons of ammonium carbonate, a 19 percent increase over the same period in 1986, and 65,000 tons of calcium [pugai 2528 6862] fertilizer, a 160 percent increase over the same period in 1986. From January to August, 333,000 tons of fertilizer were sold in Ningxia, a 7.1 percent increase over the same period in 1986. [Excerpt] [Yinchuan NINGXIA RIBAO in Chinese 25 Sep 87 p 1]

GUIZHOU FARM MACHINES--As of the end of June, Guizhou Province had 12,400 large and medium-sized tractors, more than 20,000 small tractors, and more than 6,700 farm vehicles, increases of 3 percent, 8 percent, and 6 percent respectively over the end of 1986. [Excerpt] [Beijing JINGJI CANKAO in Chinese 7 Oct 87 p 1]

SHANXI CORN--Corn accounts for 16.3 percent of the grain area in Shanxi Province, and 26.8 percent of grain output; the per unit area yield is 281.4 kilograms. [Excerpt] [Taiyuan SHANXI NONGYE KEXUE in Chinese No 9, 20 Sep 87 p 23]

FUJIAN SPRING HARVEST--During the 1987 spring harvest, the area sown to grain in Fujian Province was 2,182,800 mu, an increase of 481,100 mu over 1986; gross output was 294,000 tons, a 44.6 percent increase; and the yield per mu was 135 kilograms, an increase of 12 kilograms over 1986. The area sown to barley and wheat was 2,015,600 mu, an increase of 415,100 mu over 1986; gross output was 272,000 tons, a 41 percent increase; and yield per mu was 135 kilograms, an increase of 15 kilograms. The area sown to rapeseeds was 398,800 mu, an increase of 152,400 mu over 1986, gross output was 11,934 tons, an 11.3 percent increase; and yield per mu was 30 kilograms, a decrease of 6 kilograms. The area sown to vegetables was 1,276,900 mu, an increase of 145,700 mu over 1986. The area sown to green manure crops was 1,239,599 mu, an increase of 613,300 mu over 1986. The area sown to flue-cured tobacco this winter was 100,400 mu. The total area sown to winter crops was 5,543,000 mu, accounting for 29.3 percent of cultivated area, and an increase of 1,726,200 mu over 1986. [Excerpt] [Fuzhou FUJIAN NONGYE KEJI in Chinese No 5, 10 Oct 87 p 3]

JIANGSU SILK EXPORTS--As of 30 September, the export value of silk products from Jiangsu Province was $246,500,000, a 65 percent increase over the same period in 1986. [Excerpt] [Nanjing XINHUA RIBAO in Chinese 6 Oct 87 p 1]

TOBACCO AREA--In 1987, the area sown to tobacco in China was more than 13 million mu, and estimated output is more than 30 million dan, an increase of more than 20 percent over 1986. [Excerpt] [Beijing NONGMIN RIBAO in Chinese 2 Sep 87 p 1]

YUNNAN TOBACCO PURCHASES--As of 10 August, Yunnan Province had procured 183,700 dan of flue-cured tobacco, an 84.4 percent increase over the same period in 1986. The proportion of high and medium grade tobacco increased from 43.39 percent in 1986 to 62.3 percent. [Excerpt] [Kunming YUNNAN JINGJI BAO in Chinese 26 Aug 87 p 1]

JIANGXI DAIRY INDUSTRY--There are 12,000 dairy cows in Jiangxi Province, and the gross output of milk is about 20 million kilograms, increases of 118.18 and 92.24 percent respectively over 1979. [Excerpt] [Nanchang JIANGXI RIBAO in Chinese 14 Oct 87 p 1]

JIANGXI GRAIN OUTPUT--Estimated grain output for 1987 in Jiangxi Province is 15.5 billion kilograms. Output of late grain is expected to reach 6.14 billion kilograms. In 1987, the area sown to grain was more than 54,900,000 mu. The area sown to hybrid rice was 12 million mu, an increase of more than 3 million mu over 1986. [Excerpts] [Nanchang JIANGXI RIBAO in Chinese 15 Oct 87 p 1]

JIANGXI RICE STORAGE--As of 25 September, Jiangxi Province had put 1.459 billion kilograms of rice in storage. [Excerpt] [Nanchang JIANGXI RIBAO in Chinese 4 Oct 87 p 1]

HUNAN 'SPARK PLAN'--Over the past year, Hunan Province has invested more than 267 million yuan in 257 projects for the "spark plan". [Excerpt] [Changsha HUNAN RIBAO in Chinese 29 Sep 87 p 1]

HUNAN RURAL SAVINGS--As of August, rural deposits in Hunan Province exceeded 4.6 billion yuan, an increase of about 4.2 billion yuan since 1980, per capita savings increased from 10.22 yuan in 1980 to 95.47 yuan. According to incomplete statistics, there are 20 million rural households in Hunan, three out of every four households deposit money in agricultural banks or credit cooperatives. [Excerpts] [Changsha HUNAN RIBAO in Chinese 25 Sep 87 p 1]

HUNAN TOBACCO INDUSTRY--From January to September, the gross industrial output value of the Hunan Provincial Tobacco Corporation was 1,077,690,000 yuan, and after-tax profits were 805,640,000 yuan, an increase of more than 25 percent over the same period in 1986. Hunan Province has invested 130 million yuan in the import of advanced equipment for cigarette factories. [Excerpts] [Changsha HUNAN RIBAO in Chinese 7 Oct 87 p 1]

ZHEJIANG CULTIVATED AREA--In the first half of 1987, the total cultivated area in Zhejiang Province was 23,800 mu [as published]. [Excerpt] [Hangzhou ZHEJIANG RIBAO in Chinese 25 Sep 87 p 1]

SICHUAN GRAIN PROCUREMENT--As of 20 September, the Sichuan Provincial Grain Department had procured 3.2 billion jin of grain, and 1.52 billion jin of rapeseeds were put into storage. [Excerpt] [Chengdu SICHUAN RIBAO in Chinese 1 Oct 87 p 1]

SHANXI COTTON PURCHASES--From the beginning of September to 10 October, Shanxi Province procured 37,810 tons of ginned cotton, an increase of 13,438 tons over the same period in 1986. [Excerpt] [Taiyuan SHANXI NONGMIN in Chinese 24 Oct 87 p 2]

YUNNAN FEED INDUSTRY--In 1986, the 451 state and collective-run feed mills in Yunnan Province produced 180,000 tons of mixed feed. In the first half of 1987, output of mixed feed increased 12.7 percent over the same period in 1986. [Excerpt] [Kunming YUNNAN RIBAO in Chinese 16 Oct 87 p 1]

GUANGDONG RICE PRICES--According to a survey of 40 markets in Guangdong Province, at the beginning of September, the average sales price of 50 kilograms of rice was 42.44 yuan, a 1.18 percent decline from the beginning of July. [Excerpt] [Beijing JINGJI CANKAO in Chinese 8 Oct 87 p 2]

NATIONAL COTTON AREA--In 1987, the area sown to cotton in China was 71 million mu. [Excerpt] [Kunming YUNNAN JINGJI BAO in Chinese 23 Sep 87 p 1]

SHANXI LOANS--Recently, the Shanxi provincial government provided 18 million yuan in discount loans to upgrade 3,700 old wells and recover and transform 355,000 mu. [Text] [Taiyuan SHANXI NONGMIN in Chinese 8 Oct 87 p 1].

SHANXI SPECIALIZED HOUSEHOLDS--Rural specialized households in Shanxi Province declined from 177,000 in 1984 to 51,000 at the end of 1986. Major reasons for the decline include a decrease in cultivated area, shortages of raw materials and capital goods, reduced loans to specialized households, and increased shipping costs. (From SHANXI XINXI) [Excerpts] [Taiyuan SHANXI NONGMIN in Chinese 6 Oct 87 p 1]

ZHEJIANG GRAIN LOANS--In August, agricultural banks in Zhejiang Province provided 372 million yuan in loans to support grain procurement. [Excerpt] [Hangzhou ZHEJIANG RIBAO in Chinese 20 Sep 87 p 2]

GUIZHOU TOBACCO--This year Guizhou Province planted 2,250,000 mu to flue-cured tobacco, surpassing the annual plan by 2.27 percent, and estimated output is 240,000,000 kilograms, an increase of 47,500,000 kilograms over 1986. This year the province will export, store and transfer 98,500,000 kilograms of tobacco. [Excerpts] [Beijing JINGJI CANKAO in Chinese 13 Aug 87 p 2]

ZHEJIANG COTTON, HEMP--The area sown to cotton in Zhejiang Province has dropped from 1,571,900 mu in 1985 to 1,106,600 mu in 1987. The area sown to jute and ambari hemp is only 419,000 mu, and estimated output is 170,000 tons. According to statistics, agricultural, fishery and trade departments will need 280,000 tons of hemp this year. [Excerpts] [Beijing JINGJI CANKAO in Chinese 12 Aug 87 p 2]

CHINA TO STOP CORN IMPORTS--Based on a national estimate of corn production and sales, the Ministry of Commerce has decided that beginning in October China will no longer import corn. (From SHOUDU XINXI BAO) [Text] [Hohhot NEI MENGGU RIBAO in Chinese 12 Sep 87 p 1]

TOBACCO IMPORTS--Recently, the China National Tobacco Corporation purchased about 10,700 tons of tobacco from Zimbabwe for $30 million. In 1985, Zimbabwe exported about 6,000 tons of tobacco to China; in 1986 Zimbabwe exported about 7,000 tons. Not long ago, China and Zimbabwe signed a tobacco trade agreement. The agreement stipulates that as long as China imports $20 million worth of tobacco from Zimbabwe annually, China will pay 60 percent of the total in cash, the other 40 percent will be used by Zimbabwe to import Chinese goods. [Excerpts] [Beijing JINGJI CANKAO in Chinese 7 Oct 87 p 3].

YUNNAN SAVINGS, LOANS--As of the end of June, rural saving deposits in banks in Yunnan Province had increased 149,860,000 yuan over the end of 1986. Loans had increased 14,405,000 yuan over the end of 1986. As of the end of June, saving deposits in agricultural banks and credit cooperatives totaled 1,959,710,000 yuan, an increase of 350,160,000 yuan over the end of 1986. As of the end of June, banks and credit cooperatives had allocated 936,530,000 yuan in agricultural loans. [Excerpts] [Kunming YUNNAN JINGJI BAO in Chinese 25 Sep 87 p 4]

NATIONAL COFFEE OUTPUT--China consumes about 9,000 to 10,000 tons of coffee every year, but can produce only 1,500 tons. According to estimates, China will need 310,000 tons of coffee by the year 1990 and 616,000 tons by the year 2000. China will need to expand coffee area to 1,500,000 mu. If China produces its own coffee, by the year 2000, more than $200 million in foreign exchange can be saved. [Excerpt] [Kunming YUNNAN JINGJI BAO in Chinese 25 Sep 87 p 3]

HUBEI HEMP OUTPUT--In 1987, the area sown to jute and ambari hemp in Hubei Province was nearly 700,000 mu, a 48 percent increase over 1986. Estimated gross output is 124,000 tons, a 31 percent increase over 1986. [Excerpt] [Beijing JINGJI CANKAO in Chinese 12 Oct 87 p 2]

NATIONAL TEA OUTPUT--According to the Ministry of Commerce, tea output may reach 480,000 tons in 1987. According to statistics at the end of August, the amount of black tea purchased declined 21.5 percent from the same period in 1986, green tea increased 4.6 percent, jasmine tea increased 22.4 percent, and wolong tea decreased 27.8 percent. [Excerpts] [Beijing JINGJI RIBAO in Chinese 6 Nov 87 p 3].

SHANDONG SALT OUTPUT--From January to September, Shandong produced 2,218,000 tons of crude salt, exceeding the annual plan by 5.6 percent; 1,250,000 tons were sold in Shandong Province, and 1,770,000 tons were shipped to more than 10 other provinces, a 29 percent increase over the same period in 1986. [Excerpt] [Beijing JINGJI CANKAO in Chinese 27 Oct 87 p 1]

QINGHAI GRAIN STORAGE--As of 20 October, Qinghai Province had put 26,860,000 kilograms of grain in storage, accounting for 24.4 percent of the annual plan; and 3,680,000 kilograms of oil crops were put in storage, accounting for 6.7 percent of the annual plan. [Excerpt] [Xining QINGHAI RIBAO in Chinese 29 Oct 87 p 1]

1987 GRAIN ESTIMATE--Estimated gross output of grain in 1987 is 397 million tons, an increase of more than 5 million tons over 1986. Cotton output may reach 3.9 million tons, about a 10 percent increase over 1986; gross output of oil crops may reach 16.5 million tons, an increase of more than 1.7 million tons over 1986. From January to September, agricultural loans from banks and credit cooperatives increased 50.2 billion yuan over the same period in 1986, or 47 percent. Peasants spent 54.7 billion yuan on capital goods, a 23 percent increase over the same period in 1986. This year the area sown to grain increased more than 6 million mu over 1986. [Excerpts] [Beijing JINGJI RIBAO in Chinese 20 Oct 87 p 1]

SHANDONG COTTON--As of 15 September, Shandong Province had procured 324,000 dan of cotton. This year, the area sown to cotton in Shandong was 17 million mu, an increase of 3 million mu over 1986. Estimated gross output is more than 1 million tons, about a 10 percent increase over 1986. [Excerpt] [Beijing NONGMIN RIBAO in Chinese 2 Oct 87 p 1]

NATIONAL AQUATIC PRODUCT OUTPUT--In 1987, the gross output of aquatic products in China is expected to exceed 9 million tons. [Excerpt] [Beijing JINGJI RIBAO in Chinese 29 Oct 87 p 1]

CATTLE, LAMB OUTPUT--According to statistics, at the beginning of 1987 there were 91,667,000 head of cattle and 166,229,000 lambs in stock in China, increases of 5.6 percent and 6.5 percent respectively over the same period in 1986. At the end of June, the number of cattle and lambs had increased 3.9 percent and 9.5 percent over the same period in 1986. In the first half of 1987, beef and mutton output was 431,000 tons, a 17 percent increase over the same period in 1986. In the first half of 1987, sales of beef and mutton increased 14 percent over the same period in 1986, but per capita consumption of beef and mutton is only 1.2 kilograms. [Excerpts] [Beijing JINGJI RIBAO in Chinese 29 Oct 87 p 2]

NATIONAL BEER OUTPUT--According to the Ministry of Light Industry, beer output will exceed 5 million tons this year. Per capita consumption of beer in China has increased from 0.4 kilograms in 1978 to 5 kilograms in 1987. During the Seventh 5-Year Plan, China expects to increase beer output to 7 million tons. [Excerpt] [Beijing JINGJI RIBAO in Chinese 29 Oct 87 p 2]

YUNNAN CASH CROPS--In 1986, the area sown to cash crops in Yunnan Province was 13,130,000 mu, accounting for 20.2 percent of the crop area, and was a 67.9 percent increase over 1978. Cash crops account for 38.1 percent of the agricultural output value in Yunnan. During the 1986-1987 pressing season, the area sown to sugarcane increased from 630,000 mu in 1978 to 1,320,000 mu, and sugar output increased from 160,000 tons to 550,000 tons. This year Yunnan has supplied more than 300,000 tons of sugar to Sichuan, Guizhou, Gansu, Shaanxi, Qinghai, and Xizang. In 1986, the area sown to tea increased from 1,400,000 mu in 1978 to 1,820,000 mu, and tea output was 682,000 dan. During the winter of 1986 and spring of 1987, the area sown to vegetables was 250,000 mu, and vegetable output was 510,00,000 kilograms, nearly 1 million kilograms of vegetables were sold to 95 cities throughout China, and some were exported to Japan. [Excerpts] [Kunming YUNNAN RIBAO in Chinese 22 Oct 87 p 1]

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