

Chapter 8

EXPERIMENTS IN SICHUAN: REFORM OF ECONOMIC AND SOCIAL RELATIONS IN CHINA'S ENTERPRISES

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In recent decades, we have been carrying out experiments on the extension of the enterprises' authority in one of our industrial centers, Sichuan, which is also the country's most populous province. The experiment was launched in the light of the principle set at the 3rd Plenary Session of the Chinese Communist Party's 11th Congress to adapt China's current economic administrative system to the needs of building a modernized, powerful socialist country. The past years have witnessed important developments in this experiment. Having brought about significant changes in the economic and social relations between China's industrial enterprises, it has not only attracted the attention of Chinese economists and sociologists, but also aroused wide interest among foreign colleagues in various lands. The author himself, for example, has received scores of economists, sociologists and other research workers coming from Japan, Britain, the United States, France, Germany, and Australia to make on-the-spot investigations in Sichuan. Some of them have thereupon written treatises and monographs on their findings. Now opinions, both Chinese and foreign, unanimously hold that this experiment in Sichuan represents an important step taken in the reform of China's economic administrative system.

To understand the significance of these experiments, it is necessary to take a look back on the history of China's economic administrative system. Since 1949, when we founded the People's Republic of China down until recently, a highly centralized administrative system was practiced with regard to the enterprises under the ownership of the whole people. Among its characteristics were that the enterprise had its production plan mapped out and assigned by Beijing. Funds for production were allotted, the labor force was managed, and products were purchased and sold, all by the state. Finally, all the firm's profits were turned over to the state, while the latter assumed the sole responsibility for its profits or losses. Viewed historically, such a system had helped to make it easy for the state to centralize manpower, material and financial resources for a set objective and it exercised positive effects on New China's quick healing of her war wounds, rehabilitation of her economy, settlement of the series of economic and social problems left over by Old China, and the building of a rudimentary industrial basis.

With further development of the economy, however, it had gradually revealed certain drawbacks. For under such a system, an enterprise tended to become, instead of a vigorous economic organization, just like abacus beads, which only the state could move at will. Whether an enterprise was well-run or not had no direct bearing on the material interests of its workers. Its managerial personnel and workers had no way to exert influence on its operation and therefore could not ensure the most profitable economic results. The communist ideal of "to each according to his work" could not be well put into practice. It is evident that should we fail to get rid of these disadvantages, we could not possibly bring into full play the intelligence and wisdom of our workers, technicians and managerial personnel. All this would be an obstruction

in the way of our progress to the goal of four modernizations. It was under such circumstances that the various experiments in Sichuan were mapped out and implemented.

These experiments were carried into effect in six enterprises in the late 1970s, later extended to 100, and further extended to 417. These were the most economically important enterprises, whose output value made up approximately 70 percent of the province's total in industry. Up to now a structural reshuffle can be said to have been realized in all these enterprises by various means and in various degrees.

The experiments in Sichuan granted to each enterprise the following powers:

(a) The partial authority to draw up its own production plans. After providing a guarantee to the fulfillment of the state plan, the unit is empowered to make its own additional production plans in accordance with the market demands.

(b) The partial authority to sell its products. The enterprise is authorized to sell those of its products which the state material and commercial departments do not purchase; to sell new products that are still in the stage of trial manufacture, and, with the agreement of the material and commercial departments, to retail part of the products which are supposed to be purchased by the state.

(c) The authority to retain a certain percentage of its profits. When an enterprise fulfills the economic and technical norms set in the state plan, as well as those stipulated in the supplying contracts, it is allowed to retain a certain percentage of its achieved profits for its own funds. As for this fund, the enterprise has the right to budget the use of it. Parts of it may go for expanded production, for staff and workers' collective welfare facilities, and as material rewards for its staff members and workers.

(d) The authority to enlarge production with its own funds. An enterprise's own funds include what it gets through retention (as mentioned above in (c)), its depreciation funds, and its own overhaul funds. Now the enterprise has the power to spend these funds on its equipment reconstruction and technical innovation, and to extend production.

(e) The partial authority to engage in external trade. Those units which are qualified to produce export commodities and those in a position to import new foreign technology and equipment may, with the approval of the respective authorities at a higher level, contact and hold import or export talks with foreign businessmen, or participate in such talks held by the foreign trade departments. Of the income from exports in foreign currency, the enterprise may keep a certain percentage according to the rules set.

(f) The partial authority to appoint or remove its personnel, and also to confer reward or administer punishment. The unit has, that is to say, the independent power to appoint or remove its middle-level cadres (the heads of the factory shops or the administrative offices), to institute reward regulations, and to mete out proper punishments (which can be as severe as discharge) to those administrative personnel and workers who violate discipline, or neglect their duties.

In terms of the ultimate aim of China's economic system reform, the aforesaid reform is still in its early stages, and therefore, is imperfect. Yet compared with the administrative system

we used to execute, in which the administrative power was so overly-centralized that the government and the enterprise became indivisible, and the problem of egalitarianism very serious, this experiment in Sichuan has been a breakthrough. It has brought to pass a series of changes in the economic and social relations between the enterprises. In the relationship between the state and the enterprise, it has broken through the old administrative pattern which was characterized by the focusing of all the managerial policy decision on the state, which took an all-round responsibility for the enterprise's sales, income and expenditure, profits and losses. The experiment has granted the enterprise a certain amount of policy-decision power in its economic activities, when it has fulfilled the state plan and observes the state economic laws and regulations. Thus, having its independent economic interests which are closely related to the economic interests of its own management and workers' goals, the enterprise is beginning to be a self-managing organization. In the relationship between the enterprise and its staff and workers, this experiment integrates the economic interests of the individual staff members and workers with the results of their work. Thus it has broken the pay-you-the-same-whether-you-work-well-or-not collectivism, and enabled us to better implement the principle of "distribution according to one's work." In this way we have greatly aroused the enthusiasm and initiative of the masses of managerial personnel, technicians and workers, and brought vigor and vitality to not only individual enterprises, but to the regional economy as well.

ENORMOUS ECONOMIC RESULTS

This experiments in Sichuan have yielded enormous economic results. Take the production management activities, for example. Of the hundred experimental units, the 84 under the supervision of Sichuan's local authorities increased their total output value by 14.9 percent, and their profits by 33 percent, which were both above the average increases of all the enterprises in the province. To compare over one year, the total output value of the 417 experimental units increased by 9.7 percent, while their profits by rose 7.9 percent, which were also above the average of all the province's enterprises. Among these 417 experimentals, there were 10 which went furthest in the present reform, and executed the principle of independent business accounting and sole responsibility for its own profits or losses; the increase in these ten's total output value and profit were respectively 32.5 percent and 57.8 percent, which were again higher than the average of the 417 experimentals.

Apart from economic growth, the financial results of the Sichuan experiments have found expression in another even more important aspect: they have brought about the development of intellect, the growth of talents, and improvement, in the art of management. The process of implementing the reform of economic systems has provided the enterprises' managerial personnel with a vast field for giving full play to their intelligence and wisdom. So the current movement is, so to speak, a great school for mastering the art of management and administration. Emerging from this school, we find large numbers of socialist experts in business management who are versed in science and technology, good at management and administration, and charged with the spirit of getting on with the work. For China's modernization, this is most important.

To illustrate this point, the instance of Sichuan's machine-building industry can be cited. Having a solid foundation, Sichuan's machine-building industry is one of the important bases in China. In the past we failed to keep a rational balance in the development of our national economy; hence there existed a lot of irrationalities in the product structure of the province's

machine-building industry. Over 80 percent of its products was produced to serve the needs of heavy industry and capital construction; while less than 20 percent was oriented to meet the demands of agriculture, light industry, people's everyday life and foreign trade. Now, in the present readjustment of China's economy, priority is given to the development of agriculture, light industry, energy resources, communication and transportation; while the development of heavy industry, (with the exception of energy resources), and the scale of capital construction are kept under strict control. And this, as a consequence, brought about for the machine-building industry such difficulties as poor marketability and poor utilization of capacity. It became, therefore, a weighty problem confronting the managerial personnel of every enterprise to investigate the ever changing social demands, then to readjust its product structure, its orientation of production and to improve its service. In solving this problem, a large number of leaders and managerial personnel have learned a great deal, and therefore obtained remarkable achievements.

One of them is that they enhanced the enterprises' adaptability to social demands by developing new products catering to the needs of agriculture and light industry with a view to economize in energy and raw material. In one year alone, Sichuan's machine-building industry developed some 200 new products. Many enterprises guaranteed a continual renewal of their products by producing new models, while trial-manufacturing others, and simultaneously researching still better ones for the future. A second achievement is that they found good markets for their products by improving the quality of their products and their service, thus winning the consumers' trust and confidence.

For example, the Ningjang Machine Tool Plant is a factory devoted to the production of small precision machine tools. It has devoted major efforts to developing and manufacturing machine tools for making watch parts, basing its policy on the forecast that the demand for such machine tools would tend to increase by a large margin together with a big increase in the sales volume of watches, as a result of the general rise of the peoples' living standard. Having succeeded in trial manufacturing, they began to process watch parts with their own materials, and afterward invited specialists from the watch factory to examine their quality. Then they also taught the watchmakers new skills. Only after the machine tool's quality and precision were proved reliable and up to standard, was it that the plant signed sales contracts with new users in light of their demand. Such emphasis on quality and service enabled this plant to win the trust and confidence of the users. So it has gradually established itself as the country's leading watch-part-processing enterprise.

A third achievement is that they vigorously developed export products in response to the demands of the international market. For instance, the small diesel engines made by the Sichuan Internal Combustion Engine Plant found their way into the international market; and this plant has become one whose major effort is devoted to the production of export products. The Chongqing Machine Tools Plant won an international reputation for its strict keeping of its contracts and credit. Now its products have found a market in 38 countries and regions. Of the province's machine building industrial enterprises which produce export products, there were just 18; but the number has grown to 50. The improvement of management and administration extricated Sichuan's machine building industry from a predicament, so that there appeared a tendency to increase. This had something to do with the special factors in the period of economic readjustment, to be sure; and many enterprises were either guided by the state plan, or

under the united planning of, or coordinated by, the state's leading economic bodies. Nevertheless, it vividly and concretely illustrates the fact that through the economic system's reforms, China's industrial enterprises have become economic organizations with inexhaustible vitality, capable of self-adjustment and self-multiplication, so as to achieve the greatest economic results at the lowest labor costs. This is precisely where the hope of a vigorous development of China's economy lies for the future.

CHANGE OF THE SOCIAL RELATIONS IN ENTERPRISES

These experiments to extend the enterprise's authority have also brought about far-reaching changes in the social relations within enterprises. First of all, there arises the problem, now that the enterprise is granted greater authority, of who should be the right one to exercise this authority? China is a socialist country and it is operated by public ownership of the means of production. Here in Sichuan now, the masses of staff members and workers are the masters of the means of production, i.e., of the enterprise. Hence the authority of the enterprise should belong to them. This is a principle China has always adhered to. Theoretically speaking, it is nothing new.

But in practice, it is the present experiments that have been endowed with rich and concrete contents have embued their execution with unprecedented significance. This is because the enterprise before this experiment, had not any independent authority in connection with its management and administration. In other words, the ownership of the enterprise was out of keeping with the power of its management. Hence, though they were masters of the enterprise, the workers could not allocate or control its means, processes, and the fruits of their labor. Under such conditions, the dictum that the masses of staff and workers exercised their right over the enterprise was only verbal, but lacked concrete substance. Things, however, are different after the reform. Now that the enterprise has an independent power and its independent economic interests, its management, good or bad, directly affects the workers in it. Under such circumstances, the question of who should exercise the authority of the enterprise, and how the authority should be exercised, has a direct bearing on the enterprise's success and prosperity, on the staff and workers' economic interests, and on the development of our national economy as a whole. So it has naturally become a problem on which is focused the attention of the masses of staff and workers, as well as the economists and sociologists.

There must be concrete channels through which the staff and workers can exercise their authority over the enterprise. In the present experiments in Sichuan, we have summed up and developed our experiences in applying the Congress-of-Staff-and-Workers system practiced in some enterprises back in the 1950s. We use this congress as the basic form of the enterprise's democratic administration, and as a setup of power through which the masses of staff and workers can participate in the decision making and management of the enterprise, and supervise the cadres in their work. In short, we are establishing economic democracy. In part of the enterprises we have experimented by electing directors (or managers), shop heads, and team and group leaders by the Workers-and-Staff Congress, or assembly. Take the industrial enterprise concentrated city of Congqing, for example. There are now 19 enterprises which got their factory directors (or managers) through election, and 92 units whose shop heads and team and group leaders were elected.

The Central Committee of the Chinese Communist Party and the State Council of the People's Republic of China have begun to promulgate the "Provisional Regulations Regarding the Congress of Staff and Workers in State Enterprises." This document sums up our experiences in effecting democratic administration of enterprises in Sichuan and other provinces in China, and investing them with legal rights.

These provisional regulations stipulate that the Congress (or assembly) of Staff and Workers be the basic form of democratic management of the enterprise, and that a sharing of power enables the staff and workers to participate in the decision and administration, and to supervise the cadres in their work. In light of the requirements of the country's policy and, decrees about planning, the Staff-and-Workers Congress have the following powers:

(a) The power to discuss and make relevant decisions regarding the factory director's work report, production and construction plan, financial budget and final accounts, as well as potential tapping innovation schemes and other important issues concerning management and administration.

(b) The power to discuss and decide upon the right way to use the enterprise's funds for labor safety programs, for staff and workers' welfare, and for their encouragement and use of rules to reward or punish the employees, and upon the plan for allotting dwelling houses to employees.

(c) The power to adopt through discussion motions concerning enterprise system reform, and to pass wage-adjusting schemes, offer training programs for the workers and staff members, and other important factory-wide rules and regulations.

(d) The power to supervise the leading cadres and functionaries at all levels of the enterprise: to ask the higher authorities to praise and encourage those who always work hard and have made outstanding achievements, to suggest that the higher body promote those cadres who have made special contributions, to propose that the higher authorities criticize, punish or remove from office those cadres who are irresponsible and have caused losses, and to suggest that the Communist Party's discipline-inspecting organ and the state judicial organ sternly punish those cadres who have seriously neglected their duty and violated the laws.

(e) The power to elect the enterprise's leading administrative personnel in accordance with government authorities. The names of cadres at different levels who come from democratic election should be submitted to relevant authorities for examination, approval, and appointment.

The document has also set stipulations concerning the staff and workers' representatives in being elected, their terms of office, rights and duties, and the organizational system and working setup of the Staff-and-Workers' Congress representative assembly.

During his tour of investigation in Sichuan, a Japanese economist told me he worried whether this democratic administrative system now being practiced in China in the form of the Staff and Workers' Congress can effectively manage the enterprise, especially whether the democratic election of cadres can really put into office those people endowed with the talent of management. His worry was not totally groundless. As a matter of fact, some Chinese economists and sociologists, and some cadres themselves, had similar worries in the early

implementation of the system. However, facts about the success of this system are convincing. The following are some of them:

Congqing Iron and Steel Company, a large complex consisting of 24 factories and mines with 45,000 workers and staff members, was among the first batch of enterprises in the province to be extended independent powers. It was also one of the first to institute the Staff and Workers' Congress. The company began the experiment by selecting middle and grassroots level cadres through elections, and after two months this was completed in all of its 24 factories and mines. As a result, 2,124 people were elected either as shop heads or section chiefs, or work team leaders. Among this number 1,379 people had been cadres originally; but for 745 people it was the first time for them to hold such positions. This led to three changes in the composition of the current cadreship, as compared with that of the pre-election days.

First, the number of technical personnel has increased four times. Second, the number of people with technical secondary school education, or more, has increased four times. Third, their average age is 8 years less than the previous leaders. In other words, in the cadre ranks now there are more people who know not only their professional work, but new technologies as well. They are better educated and are still in the prime of life. All this is in conformity with the demand of China's modernization strategy. No doubt, therefore, this is enormous progress. Now the change in the composition of the cadre ranks has brought about an improvement in the art of management and administration of the enterprise. In the past few years, the company has created the best economic and technical record since its founding. Several of its technical and economic indices rank first in all of the country.

Number 1 Cotton Textile, Printing and Dyeing Mill of Sichuan, a complex with 10,000 workers and staff members, was another of the 100 enterprises which carried out the experiment to enlarge its independent powers. In this unit, the fully democratic cadre has not yet been put into practice, but its Workers and Staff Congress is playing a remarkable role in the enterprise's management and policy-making. Before reform, the factory had held occasional meetings of staff and workers' representatives, but 85 percent of the agenda was related to welfare matters, and nothing else. And because the factory at that time had no funds of its own which it could freely budget, most of the draft resolutions could not be put into effect. Now, however, 85 percent of the proposals from the Staff and Workers' Congress have focused on the factory's management and administration. And once adopted, they are readily carried into effect.

What is it, then, that has impelled the masses of workers and staff members to show such deep concern for the enterprise's management and administration, and for the election of cadres? The workers' representatives at the Number 1 Cotton Textile, Printing and Dyeing Mill of Sichuan answered this question for me. They said that it is the extension of the enterprise's independent power which has closely tied together the interests of the state, the enterprise, the staff, and workers. This factory is among those which practices the system of independent accounting, and it has sole responsibility for profits or losses. It has agreed with the authorities on the following experimental method.

From its sales proceeds, the factory must first of all deduct its expenses for raw material, production costs, and payment for industrial and commercial taxes. Then, of the remaining sum, 69 percent goes to the state in the form of income tax, while the remaining 31 percent can be

kept for its own uses. Of this share, a part is to be used for wages, and the remaining part is to be spent as follows: 40 percent should be spent as funds for the development of production, 30 percent for collective welfare funds, 20 percent as funds for encouraging and rewarding staff and workers, while the remaining 10 percent is saved as a reserve fund.

This experimental method contains mechanisms which can automatically readjust the interests of the three parties, namely, the state, the enterprise, as well as that of the staff and workers. It means that as the enterprise keeps more funds, staff members and workers get more pay. Under such conditions, to run the enterprise well becomes the common desire of both the responsible state institution and the broad masses of workers and staff members. Therefore, how to choose or recommend the best people with managerial and administrative talents for the leading posts naturally becomes an important task which focuses everybody's attention. After reforms, the enterprise's proprietary rights and the power to manage and administer are combined into one. The workers and staff members' personal interests are brought in line with those of the state and the enterprise. This is where lies the secret of why the staff and workers' representative assembly has great vitality.

Along with the Staff and Workers' Congress under the leadership of the Party committee, Chinese enterprises have also instituted a system of vesting responsibility in the factory director who works under the leadership of the Party committee. The main element of this system is to establish a highly authoritative production-directing system, with the factory director as its head. It seeks to set up a system of responsibility for production technology and for the economy at different levels, headed by the factory director. Thus, he may exercise a commanding power over all the activities of the factory's production, management and administration.

In the next step toward economic democracy, the Central Committee of the Chinese Communist Party and the State Council of the People's Republic of China promulgated the "Provisional Regulations Concerning the Work of the Directors of State-Run Factories." This document defines the factory director's appointment and removal, duties and powers, rewards and punishments, and it shows the way to establish a production-directing system in the factory. Like the aforesaid "Provisional Regulations Regarding The Congress of Staff and Workers in State Enterprises," this document is also an economic decree for all Chinese industrial enterprises to abide by. Regarding the relationship between the factory director and the Staff and Workers' Congress, this document stipulates that the factory director should have respect for the functions and powers of the Congress, support its work and accept its supervision. He should regularly report back to it on his work regarding the resolutions adopted by the Congress concerning production or administrative work. Should the director's opinion differ from that of the Congress, the former might ask for reconsideration. Should he still disagree with the decisions made after reconsideration, he can submit the issue to the factory Party Committee for a ruling.

In the Chinese industrial enterprise, the organization of the Chinese Communist Party exercises a collective leadership in the implementation of the Party's general and specific policies, and in ideological and political work. The factory director gives directions regarding production and technology as well as managerial and administrative activities. Therefore, the Staff and Workers' Congress runs the enterprise in a democratic way. These are the three cardinal principles concerning the system of leadership of industrial enterprises. On hearing that

economic democracy was effected in Chinese enterprises, some foreign experts thought this was an abandonment of the unified system of a command economy. Others regarded the restructuring of our former economic system as bringing about capitalist liberalization. Both were total misunderstandings.

THE REFORM WILL BE CARRIED ON WITH UNREMITTING EFFORTS

The reform of economic administration and managerial systems carried out in Sichuan over the years is only partial and exploratory. The methods used are far from perfect, especially, as to how to strengthen and guide the macro economy, while also stimulating the micro economy. There still exist a number of problems to be solved. But the orientation of our reforms is quite correct.

It signifies several changes: (a) To strengthen centralized leadership of the state in the macro economic activities, while in micro economic activities granting organizations their own independent powers; (b) While upholding socialist planned economics as a prerequisite, to make every effort to bring into play the supplementary role of the market; (c) In place of the past practice of managing the economy merely by administrative means, to resort to a new approach which is a combination of administrative and economic measures; namely, to manage the economy by means of both economic levers and economic decrees. Now to make a long story short, we seek the best solution to these problems, and they constitute the overall task of China's system of economic administrative reform. For this purpose, it is necessary not only to extend the enterprise's independent powers, but also to carry out a series of successive and synchronous restructuring and reforms in planning, financing, taxing, pricing, and banking, as well as in commerce, obtaining raw materials, conducting foreign trade, and paying wages. It also requires the reorganization and merging of enterprises, the establishment of leading economic organizations, and their obligations. This is a complex and arduous, but historic task. But China's relevant leading organizations, as well as economists and workers, are determined to fulfill it.

China is a developing socialist country, and a large one, having a population of over a billion people, most of whom are peasants. The nation's economic, administrative and managerial systems must fall in line with this basic condition. I greatly appreciate the remarks of an American scholar who spoke during a visit to China, about how China should correctly deal with the problem of learning from foreigners about management and administration. The concluding comment was as follows: "The key to China's fundamental problems lies in China, and nowhere else."

This is quite true. Since conditions differ from country to country in the world today, no foreign country's economic, administrative, and managerial systems, however effective, can be copied without being adapted in China. By this, of course, I do not mean that we should not learn from other countries and their experiences. What I mean is that we must not indiscriminately follow foreign models regardless of our own experience and conditions. The task confronting the Chinese people and the Chinese economy is to draw upon our experiences during past decades since the founding of the new People's Republic of China. We should especially assess our recent years of experimentation in reform. Through carefully studying the experiences of various foreign countries, we may draw on their good qualities, and then work out

a well-conceived program for our own reform. Finally, through practice, we can gradually develop a new managerial and administrative system that fits the development of China's economy and society. The Chinese people, and Chinese economists, are confident and capable of fulfilling this task. They are also willing to exchange experiences, with the people, economists and sociologists of all countries on friendly terms.