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Much has been written about the "second economies" of the USSR and Eastern Europe. In China, too, a great deal of the economic activity lies entirely outside the state plan, and very often in contravention of state regulations. But very rarely have any published studies on China made any mention at all about how this second economy operates.

Here we will concentrate on how peasants, 80 percent of China's population, participate in the second economy. Writers on Russia and Eastern Europe frequently stress the illegal or corrupt aspects of this second economy. As our paper shall show, in China instances can similarly be found of private entrepreneurship, illicit economic activities and corrupt practices. Some of the anecdotes told by emigrants from China are even quite similar to stories told of Eastern European countries. The fundamental similarities in all of these countries' planned economies and political structures inevitably have bred some of the same techniques for circumventing the state's desires. But corruption and private greed are not the defining or major elements of the second economy in China's villages.

Moreover our survey of various second economy operations will show the difficulty of ever meaningfully defining activities in terms of their "illegality".



In fact, for many of the second economy activities there are not even any hard and fast lines of demarcation between legality and illegality. This is true, too, of the Soviet marketing system.<sup>1</sup> In both countries there exists an area of semi-legality midway along a wide spectrum of activities. These semi-legal economic operations are not strictly in accord with the rules but are usually tolerated by the authorities as helpful to the economy's well-being.

When the Chinese government does object to semi-legal second economy activities it is either because these activities (i) irritatingly interfere with the first economy's operations, or (ii) are conducted for purely personal profit and thus purportedly endanger the Party's egalitarian socialist goals. The distinction between these two kinds of governmental objections is important. Some endeavors in the second economy may supplement the first economy and benefit economic development, but at the same time may go against socialist principles. The government has swung back and forth in its tolerance for such activities, depending upon the leaders' political priorities of the moment. During 'radical' periods like the early 1970s, a large proportion of the peasantry's second economy undertakings became politically suspect. Conversely in the late 1970s, when China's economic development became the government's top priority, these same second economy activities were publicly lauded. 'Legality' is not a very precise concept when swings of the political pendulum repeatedly push second economy operations underground and then pull them back again out into the open. Our discussion of rural China will span this particular cycle of the 1970s.

It is drawn from the accounts of emigrants who left China in the mid and late 1970s. During two visits to Hong Kong, in 1975-76 and again in 1978, we had the opportunity to interview very extensively twenty recent emigrés from a village in Guangdong Province that we will call Chen Village.<sup>2</sup> We came away with some two thousand pages of transcripts. To put the village's affairs into perspective, we also interviewed recent emigrants from half a dozen other Guangdong peasant villages. Three of these interviewees regaled us with very detailed accounts of their own villages' second economy activities. Most of the examples that we will cite derive from these four villages.

None of the four is particularly rich by the standards of Guangdong Province.<sup>3</sup> Chen Village is slightly above average in prosperity. So too is our second village. The third is rather poorer; and the fourth is a destitute mountain hamlet struggling to maintain subsistence living standards.

Presumably some readers will not be entirely clear about the structure of China's rural economy. To place the countryside's second economy into an understandable context, we will therefore pause at various points to sketch in the outlines of a Chinese village's first economy. Our description will be divided into six sections: (1) agricultural collectives and the state plan; (2) private production; (3) marketing; (4) the operations of village-owned factories; (5) procurements; and (6) second economy workers.

## I. Agricultural Collectives and the State Plan

After the disastrous failure of the Great Leap Forward of 1958-1960, China's leaders realized the peasants had to be given a material stake in the productivity of the collective sector. Accordingly, in 1961-62 relatively small production cooperatives were established. These are composed of some ten to forty neighboring families. Sometimes they constitute a hamlet or sometimes the neighborhood of a large village. These local production cooperatives, called "agricultural production teams", possess a fair degree of economic authority. The peasant households collectively own the land, elect their own leaders, and share the proceeds, with each team member paid in accordance with the value of the labor that he or she has contributed. Because it is a cooperative / the peasants know their personal interests are served not just through earning a bigger individual slice of the team's proceeds; they also profit if there is a bigger collective pie in which to share. Interviews suggest that most peasants consequently do identify with their team's prosperity and the further development of its economy.<sup>4</sup> One result, as we shall see, is that team members sometimes will connive to cheat the state in their team's behalf.

The team's conflicts of interest with the state center on the fact that the teams' autonomy in economic matters is restricted by a system of quotas. Each year the state plan designates production quotas for the major grains and commercial crops. The province divides the quotas among its counties, and the counties apportion the quotas among each of the communes (that is, the local marketing districts). In turn, each winter the peasant officers of the agricultural production teams attend a conference at the commune seat

(their local marketing town) or at the county capital to hammer out the team's quotas for the following year. A former official from Chen Village comments,

"Everyone could pretty well estimate in advance what the the state's demands will be. Our grain, sugar-cane and peanut quotas (these were the three crops in Chen Village that came within the state plan) usually were just a bit higher each year... An important part (of the plan) was that so much acreage had to be planted to each of these quota crops. They stipulated that we had to use most of the best lands for rice, and not for vegetables or fish raising, and they'd check to make sure we were sticking to the plan."

This procurement program forces the peasants to concentrate on providing the cities with stable supplies of basic foodstuffs and industrial raw materials at fixed low prices. These procurements constitute a considerable part of the teams' production -- in Chen Village, about half of a team's rice yields. This grain has to be sold to the state before a team can distribute any to its own members. The team can retain quota grain only when the yields are so poor that the average team member would otherwise be left with less than 15 kilograms of grain per month.

Moreover, when a Chen Village team has an unusually good harvest regulations prevent it from distributing to its members more than an average of 25 kilograms.<sup>5</sup> One stated reason is to keep grain that is above the consumption needs of a family off the rural black market. A second function of the ceiling is to channel this grain into urban shops and exports. To induce teams to strive for good harvests, the government offers a price some 50% higher for this above-ceiling grain than it did for the sales of quota grain.<sup>6</sup>

The low price offered for the quota grain is somewhat re-

sented by peasants, but it is not their major objection to the system. What irks peasants more is their inability to keep more grain for home consumption. This is especially true in poor areas. After selling the quota grain to the state they sometimes have to buy/replacement grain on the black market at double or triple the price. In these poorer villages the peasants understandably try to prevent most of their grain from entering the first economy. Ling Hollow and Lee Family Village, the two poorer villages in our small sample, consistently hide as much as they can from the eyes of the government. They keep the locations of some of their mountain fields secret, report good grain as having been spoiled, hand in wet grain in the place of dry, and laboriously fiddle their account books. The cheating must be done collectively, with the connivance of Party members and village leaders. For example, in Lee Family Village,

"Our team secretly distributed a hundred kilos of rice to each of us before the team handed in anything to the government. The team heads gave us a lot of instructions, very detailed, to cover up the discrepancies... If we were ever questioned by higher-level cadres coming down, we were to say we only had 15 kilos per month on the average. The big charts up at the team office showing the grain rations of each person and family were for outsiders only... The team kept two separate account books, one real, one false."

This 'hidden economy' is not, of course, included in the Chinese government's data on national agricultural production. To this extent, foreign scholars <sup>perhaps</sup> tend to underestimate total grain production and per capita levels of consumption in China.

It seems from interviews that grain concealments of this type are more common in small isolated hamlets than in large village settlements composed of several production teams, where each team may not be entirely trusted to keep the others' secrets. Moreover, most large settlements are in delta and plains areas, and they can



expect to produce enough to retain a grain cushion even after their quota deliveries. Since such villages do not desperately need to hold back grain, the upper administrative levels scrutinize their books much more carefully. In the poorer districts the officials take into account the peasantry's plight and seem to look the other way even when the teams engage in fairly clumsy machinations. Transgressions that a village of average prosperity such as Chen Village would not get away with -- and which most self-respecting Chen Villagers would not consider doing -- Ling Hollow and Lee Family Village commit regularly, almost with impunity.

The concerns of a Chen Village team revolve more around efforts to resist the urgings from higher-level local officials to sell more surplus grain to the state. The team also tries as much as it can to diversify its agriculture away from grain production. The peasantry are always tempted to divert some of their quota ~~percentage~~ <sup>secretly</sup> to crops like vegetables or peanuts which fetch better prices. The Chen Village peasants consider these incursions on the team's grain fields as merely good business sense; the state uses terms like "capitalist roading". The local Party officials have to try to control the agricultural production teams in a game of 'catch-if-you-can'.

## II. Private Production

The rights of peasants to engage in private sideline production has been guaranteed by the state (with local and temporary exceptions) since 1962.<sup>7</sup> China's political leaders had learned in the disastrous Great Leap Forward experiences of the / that the private agricultural sector, particularly the private plot, was a "necessary adjunct to the socialist

economy".<sup>8</sup> The new regulations of 1962 let the teams set five to seven per cent of their arable land aside for these private plots. Because most Chinese villages have little land per capita, we are talking about relatively tiny plots. In Chen Village they range from a minimum of a thirtieth of an acre for a single person or married couple to a maximum of a tenth of an acre -- for families with six or more members. A family holds only temporary usufructual rights, and the size of its plots are readjusted from time to time as new children are born and older children marry out.

The peasants can also engage in other private sidelines. The most important of these is pig raising. Most of the pigs in China are reared privately, usually with government encouragement. In fact, for each sow it owns, a Chen Village family gets allotted an extra thirtieth of an acre for growing animal fodder. Most of China's chickens and ducks are also the private property of families, as are some of the fruit trees planted in courtyards and scattered on hilltops. Further private income can be earned by gathering wood or grass for fuel, or fishing after-hours, or private cottage handicraft industry.

These private economic activities are essential to the peasants' livelihood in two ways. Whereas the collective fields provide almost all of China's grain, the private sector provides the bulk of the peasants' vegetables and meat. This is reflected in the saying,

"For the bottom of the pot rely on the collective,  
For the top of the pot rely on ourselves."

The private plots and other private activities are also the peasants' most important sources of cash income. At the end of each harvest each household's cumulative workpoints are computed and the family is paid both in kind and cash. Payment is in kind first, and each

family is guaranteed its staple foodstuffs.<sup>9</sup> After deducting the cost of these staples, a household may not even be entitled to any cash, especially in the poorer districts. Even in prosperous teams there are usually households whose working members are so weak or have so many mouths to feed that their rights to grain allotments actually exceed the household's earnings from the collective. Such households not only receive no cash; they become "overdrawn households" whose debts to the team will have to be made up in future years. Such families depend entirely upon their sidelines for cash. And even the comparatively well-off peasant households do not have much ready money to meet the costs of a family funeral or a son's wedding. On such occasions, peasants sell what they jokingly refer to as their "piggy banks" -- one or more of their hogs. For all peasants, prosperous or impoverished alike, a second rural saying also applies:

"For eating rice rely on the collective,  
For money rely on your sidelines".

Partly because of the government's own pricing mechanisms--under which most of the collective grain is sold cheaply, while vegetables procure far better prices -- the peasants can earn considerably more per hour from their private endeavors than from collective labor. All told, a quarter to a third of a Chen Village family's gross annual income (including both kind and cash) derives from the private sector.<sup>10</sup> In poorer villages like Lee Family Village and Ling Hollow, where the earnings from the collective fields are far lower than in Chen Village, up to a half of the family income derives from private activities.

Though the private sector is an indispensable part of China's agricultural economy, it inevitably impinges upon the productivity

of the collective sector. This can be witnessed graphically in the expansion of private acreage. It is to the advantage of the state, the collective, and the private household to put under the plough as much cultivable, even marginally cultivable, land as possible. Peasants therefore are not discouraged from expanding their private plots by reclaiming odd strips of fallow land or semi-arable hill slopes.<sup>11</sup> In Chen Village about half the families regularly do so. But the numbers of these cleared patches tend to grow over time, diverting some of the peasants' attention from their collective work. So about <sup>once</sup> every three years all of the new plots are confiscated by the Chen Village Party committee and incorporated into the production teams' holdings. Moreover, in the words of a former Chen Village cadre,

"The peasants know that any person's energies are limited, and that if a farmer is so energetic on his own land then he's slighting the team's land. So anyone who goes beyond acceptable limits in clearing new plots becomes a target (for public criticism) in his production team's meetings, in Mao Study classes, and on the village broadcasting system. So, few people dare to."

The teams also resort to economic sanctions against members who stay at home too much on private business. If a healthy peasant in Chen Village shows up for work in the collective fields fewer than 28 days in a month, his or her grain allocation is cut off. All told, the price of black market grain is too high (and the resentment of more conscientious neighbors too severe) to permit much absenteeism.

But <sup>some</sup> peasants <sup>still</sup> face temptations at work to conserve their energies for their private undertakings. In Chen Village,

"There's grass on the mountainsides that can be sold to the village brickworks for 2.8 Yuan per 100 kilos. In a good year you'd only earn 1 Yuan for a whole day's collective work, while some folks can cut up to 100 kilos of grass in the same day. As soon as collective

work stopped for lunch, (some of our team's members) would immediately clamber up the hillsides, running along cutting grass fit to kill and stuffing rice-cakes in their mouths at the same time.... When collective labour resumes, they're pooped and so relax in the fields a bit by working at a leisurely pace. Then through this, they recoup and go off to work at their private stuff, such as more grass cutting, when the work-day ends."

The state periodically reacts with campaigns to tighten the reins on the private endeavors. These campaigns usually are backed by ideologues among the Party leaders, who have always worried that private undertakings encourage a selfish "small producer mentality" among the peasantry. But some of Chen Village's cadres, with an interest in boosting their production teams' productivity, have been willing helpers in pushing such campaigns locally. During one such campaign in 1969-70, lunchtime and after-hours grass cutting in Chen Village was temporarily banned -- at local initiative.

However, the last major campaign of this type, the Line Education Campaign of 1975-1976, was removed from local cadre hands. The higher authorities wanted to be absolutely sure that tough new measures were put through. Workteams of officials sent from above momentarily took over the villages. In Ling Hollow, a cadre workteam established a supervisory system that stipulated that the private sector no longer could comprise more than 40 percent of a peasant family's gross income. In Chen Village, the peasants no longer were permitted to raise more than ten ducks, whereas before the campaign each household had raised twenty to thirty. And henceforth in Chen Village "if you were out of money and took leave from the fields for a day to cut grass you'd be fined 5 Yuan."

But such restrictions could not resolve the inherent contradiction between the private and collective sectors. The various re-

restrictions simply depressed rural incomes; aggravated the shortages of poultry, meat and vegetables in the urban markets; and throughout China generated intense dissatisfaction with the radicals. Politics and economics demanded that a new balance between private and collective be struck. After Mao's death and the purge of the "Gang of Four" in late 1976, the new leadership in Peking (Beijing) was quick to encourage private sideline production once more.

### III. Marketing Farm Produce

The government has faced many of the same questions in its rural marketing policies as in its policies toward agricultural production -- how to exert controls without adversely affecting the collectives' and peasants' incentives to produce. How much success does the state have in maintaining this balance?

All rural products have been divided by the state into three categories:

- (i) Class I commodities, where distribution and sales are completely controlled by the state. These commodities circulate in the second economy only illicitly. This usually includes grain and vegetable oil.
- (ii) Class II commodities, where the state sets delivery quotas, but where the product legally can be sold in the free market once the quotas have been fulfilled. This includes pigs, poultry and certain collective subsidiary crops like sugar-cane.
- (iii) Class III commodities such as vegetables and handicrafts, which are not subject to any quotas and enter the second economy freely.

#### A. Sales to the State

Though the state provides legal choices for Class II and Class III commodities, the government always wants to channel more of these products into the first economy. Yet the prices offered by the state almost invariably are lower than free market prices. The state therefore finds ways to make its own terms more attractive or, alternatively, reduces the ease with which teams and peasants can sell their production privately. In the following pages we shall observe how the teams and peasantry react to the choices and constraints they are faced with.

Take for a moment the case of grain, a Class I product. Even though the state offers a price 50 per cent higher for surplus

grain than for quota grain, this price is still only half the black market price -- and less even than the earnings from raising livestock on the grain. But petrochemical fertilizer is in short supply in China. Most of it is rationed to production teams as part of their annual plans; and a team cannot simply go out and legally buy extra amounts even if it has cash in hand. To induce teams to sell more of their surplus grain to the state, therefore, the government offers fertilizer coupons as bait. Note that this fertilizer is not given free; it still has to be paid for by the production team at the normal prices for fertilizer. It is a very advantageous arrangement for the government. It can offer lower prices and still compete with the free market simply by wielding discretionary powers in allocating needed supplies.

But the local state procurement agents must still operate in line with market forces: if a certain vegetable is in short supply, the market-town "supply and marketing cooperative" (the name in China for the state's local-level procurement and sales agency) must raise its price and offer more fertilizer coupons. If the teams and households respond by stepping up production of that vegetable on their team fields and private plots, the prices and terms drop. Peasants and procurement officers engage in calculations that would seem familiar to Western farmers, always trying to foretell the price fluctuations of the market.

Chinese market towns even today have special market days -- every third, fourth, or fifth day is a market day. On these market days, each production team will dispatch one of its members to



If this sell its produce, produce is in abundance, the office will be particularly strict about the quality; so at such times it makes a big difference for the production team if the team's salesperson has good personal relationships with the procurement personnel. A former team salesperson explains,

"The team let me go to sell vegetables because I'd gotten to know the people at the supply and marketing cooperative very well. Because of this relationship they weren't choosy with the vegetables I brought in. If you didn't know them they could give you a hard time. Sometimes, when it was a busy agricultural season and everyone in Chen village was working their butts off, I could just take my bicycle and vegetables out to the market. Some people really got jealous. 'You, a rich-peasant son, yet you have it easy!' But they had to let me sell the vegetables because they knew that when I did no one picked and chose. Ha,ha! If not, the people at the office really examined the vegetables one by one. One way I got to know these people well was by doing things in return for them -- I gave them some left-over vegetables sometimes. But then this is normal social etiquette."

To dispose of the bulk of his rejects, the production team salesperson next moves down the road to the free market and sells at whatever prices the market can command.

#### B. Free Market Sales

On a market day, each of China's 33,000 market-town free markets are jammed with sellers and customers.<sup>12</sup> Peasants congregate on such days to make their personal purchases and sell their own surplus produce. A certain village may specialize in breeding calves or piglets or ducklings. A team or household may have some chickens for sale. Most of these transactions in the free markets are haphazardly taxed. A "market control corps" circulates the market, gauges by eye how much each hawker is selling and writes out tax slips. But the corps is especially on the look-out to ensure that all the private sellers have already met the state's household procurement quotas. The state requires every peasant

household to raise a given number of pigs and poultry to sell at the state procurement office each year. Only then is the family free to consume or dispose of its extra livestock.<sup>13</sup> The state tries to compete against private buyers for this surplus livestock and for the peasants' private vegetables, and again the state resorts to chemical fertilizer as an inducement. For each non-quota'ed duck, the peasant will receive his cash plus a coupon allowing him to buy say, a half kilogram of fertilizer. A peasant must always decide -- does he prefer the extra money from the free market or does he have greater need for a bag of fertilizer for his private plot? By value, nearly a quarter of all the products bought by the supply and marketing depots come from the peasants' private sidelines.<sup>14</sup> But the peasant more often opts for the free market. Much of these private sales and all of the peasants' home consumption go unrecorded in national agricultural statistics.

The peasants face numerous restrictions, though, that keep them from doing as well as they would like to in the free market. The state wants the second economy to be kept local and small-scale, and so specialty products of an area usually are not permitted to be sold across county boundaries by either teams or households. Moreover, to prevent the peasants from flocking into the better priced suburban free markets, only the teams and peasants who reside within a metropolitan county are allowed to sell any produce there. Peasants resort to both legal and illegal means to get around these restrictions.

As a legal strategem, they may bring their produce to huge unregulated free markets on the main roads just beyond the metropolitan boundaries. Urban residents flock there by bus on their days off to stock up on meats and vegetables. Peasants who are enterprising sometimes also circulate within their own county

buying in one market town one day and then re-selling their purchases the next day at higher prices in another market. In the early 1970s, some counties in China synchronized the market days throughout the county to curtail this "bourgeois" small-scale profiteering.

### C. Illegal Marketing and Smuggling

More illicitly, peasants can try smuggling produce across county lines or can do black marketing in Class I Commodities. These illegal activities are more common in the poorer districts. There, as we saw earlier, peasants cannot easily make ends meet if they adhere always to regulations. As just one example, our respondent from Lee Family Village recalls:

"Up in the hill country livestock sells for less. So people from our village would climb even further up into the back country, buy things like chickens and cows, and sell them in the richer districts or even in Canton. This kind of thing isn't easy. During the day there'd be Market Control Corps personnel guarding the paths out of the hilly regions. So we'd do our bargaining for the produce during the day and secretly bring them out at night. It was risky, because the terrain is rugged and the back paths slippery. All over Guangdong province, once the sun goes down, people are on the move!"

Lee Family Village sometimes engages collectively in such smuggling and black marketeering. The village's main marketable product is timber from the surrounding hills. To conserve the forests, the amount that legally can be felled is regulated by the state.

"But the peasants didn't care. They just sawed them into short logs, bundled them up, and tried selling them far away in places not near any hills, where people would buy wood at high prices. So at night we'd cycle out secretly to these places with the wood on our bikes, to escape being caught by the people in charge of forestry. We usually went in groups. All the labor power from each family would be mobilized, including the team cadres and even the village heads."

In the poorer regions, the higher officials

frequently turn a blind eye to even these large-scale violations. We have no evidence that bribes are either necessary or normally expected. It seems simply to be accepted by local and district authorities that the peasants' livelihoods are at stake.

In these poorer districts the authorities similarly tolerate the black marketing of grain. One interviewee frequented a large market town at an intersection between a rich district and a poor district, where black-market grain was sold openly. In the relatively prosperous districts surrounding Chen Village, the peasantry engage in far less illegal activity; they feel less need to.

Even in the better-off districts, though, the consumer goods shortfalls of the first economy and the restrictions on private long-distance trade has given rise to small-scale smuggling and profiteering. A government radio broadcast recently complained,

"Commodities produced in distant localities are sold at local fairs for big profits. Instead of selling self-produced commodities or commodities consigned to them for sale at local fairs, some people buy commodities from traveling merchants from other provinces or localities or from illegal local peddlers and sell them for profit at the local fairs. For instance, a thermos bottle priced at 1 yuan and 41 fen in state-run stores is sold at fairs at a price 99 fen above the state price. One such fair stall made nearly 900 yuan in profit on sales of thermos bottles alone in only a few days... People have acquired filter cigarettes from stores by improper means and have sold them at fairs at much higher figures than the purchase price. They have also bought trousers that were made over 10 years ago in Shanghai and sold them at a net profit of 5 yuan per pair. Sunflower seeds bought at 50-60 fen per catty from Jilin and Heilongjiang provinces are being sold at local fairs in Liaoning province at 1.3 yuan per catty. Yet no action has been taken against this speculating and profiteering. Market management departments have shown an indifferent attitude toward these activities. leading organs have made no arrests.<sup>15</sup>

The very existence of the free markets has always bothered

the ideologues in the Party. They argue that the peasant free markets inevitably become "sprouts" for this type of trafficking. Before Mao died, political editorials in the mass media sometimes referred to the peasant markets as "capitalist free markets" and "tails of capitalism". Hence, when the radicals had a hand in national policies in the early and mid 1970s fewer types of commodities were allowed to be bought and sold at the markets. Moreover, ceilings were sometimes placed on the prices that sellers could demand; for a while at the market town nearest to Chen Village produce could not be sold at more than 15 percent above the state's / procurement prices. At two other villages in our sample, peasants and teams no longer were permitted to sell at all outside their own local market town. In some places, according to press reports, free markets were closed entirely. The results were disastrous.

In Guangdong province -- and much of the rest of China -- the 1970s was a decade of agricultural stagnation. In these circumstances, the periodic campaigns against excess private production and the clamps put on the free markets simply exacerbated the shortages of foodstuffs available to shoppers. Black markets flourished and the prices on them spiralled. "It is not possible to stop (private) trading," a local official recently was quoted. "We did ban it a few years back, but that only drove it underground and gave the green light to capitalist practices. A black market came into being (sic) and piglets were being sold at twice the price over those sold in the open market".<sup>16</sup> In Chen Village's district, black marketed vegetable oil rose from about Y1.50 at the beginning of the decade to Y5 by late 1977. Black marketed rice -- always sold discretely in this district, through private introductions -- almost doubled in price between

1974 and late 1977, from Y20 per 50 kilos to Y35. The chief sufferers in the countryside were impoverished villages that were short of grain and oil.

The post-Mao Party took steps to reverse these trends. The re-growth of free markets officially is being encouraged, and even grain and other Class I produce can now be bought and sold legally in these markets.<sup>17</sup> Moreover, the new state quotas on grain in 1978 purposely left more grain than usual in the peasants' hands. For the first time in years, hence, privately traded grain prices have declined -- in the government's estimates, by some 20 per cent nationwide between mid 1978 and mid 1979.<sup>18</sup>

The proponents of the "Four Modernizations" have decided that if you can't lick 'em, join 'em. Throughout 1979, the national press described one sector of the rural second economy after another as "promoting socialism".

#### IV. Village-Owned Factories and Middlemen

Whereas a "production team" is usually a hamlet or the neighborhood of a larger village, the village itself (or a cluster of neighboring hamlets) is called the "production brigade". The local Party branch is organized at this "brigade" level, and it is the brigade which oversees political campaigns, runs the local primary school, and establishes and operates the small village factories and repair shops. Under the slogan of "self reliance", the government has provided relatively few loans to start or expand these village industries. Instead, a brigade has to rely on its teams for the initial investments.

In Chen Village (population 1,200) the brigade leadership suggested in 1969 to the heads of the village's ten production teams that Chen Village greatly enlarge its brickworks. The teams agreed, and each team put up an equal share of the capital. The brigade level remained the brickwork's owner, but in reciprocity for the teams' funding, the brigade had to allocate factory jobs equally to each team. The teams <sup>also</sup> gained modestly through a direct share in the profits. In a variation on this theme, in Ling Hollow the more prosperous teams, with greater funds at their disposal, were asked to contribute more, but in return they acquired the right to fill more of the factory slots and received higher dividends. In brief, agricultural surpluses get shifted into local rural industrialization in a fashion that recompenses the agricultural sector.

The products of these village industries may enter the first economy if the brigade chooses. But it is completely legal for most of these factories to operate entirely in the market economy.

The brigades may sign contracts with other plants, or sell privately to other collectives or individual households.

For some products, a peasant village may have difficulty finding its own customers. Our interviewee from Ling Hollow served as accountant for his brigade's new tile works, and he explains how it was done:

"In the streets near our county supply and sales headquarters you can find middlemen who make a living on commissions. The state bought tiles but the price was low, so we preferred the middlemen. These people have a lot of connections, a sweet tongue and know how to socialize. So we went to them. These middlemen would go to a lot of units asking whether anyone needed tiles. This kind of middleman does very well in China. (But) these middlemen use a lot of money. They need a lot for bribes and entertainment, exactly like in Hong Kong...If they came to Hong Kong they would do very well here..."

"Some are officially licensed by the county to do such work...(Yet) most operate illegally, and the state tries to catch and prosecute them -- makes them give up their money, confess, and reform....(But)how do they (usually) get away with it? Both the sellers and buyers are breaking the law (as accomplices), so they don't dare turn them in. Factories like ours really need them to promote sales in unfamiliar territory. In fact, a factory like ours often has to plead with them to take our goods -- has to wine and dine them.

"They won't normally dare touch Class I products. They deal occasionally in Class II products, but mostly in Class III goods like our tiles or collective sideline products such as bamboo shoots and medicinal herbs. And they also deal in repairs. If your tractor breaks down and local state maintenance people can't handle it, one of these people might show up and say, hey, I can get this fixed for you right away for a measly Y500 (which is more than a peasant earns in a year). Then he brings in a mechanic from Canton or somewhere and gets the job done." 19



## V. Procurements -- The Chinese Version of 'Blat'

Most often, the brigade's major headache is not so much how to dispose of its products. Rather it is how to procure the capital goods and spare parts that the village needs. Many of the industrial goods useful for rural development purposely are sold by the state at prices well below what the market could bear. But one untoward result is that the demand for tractors, water pumps and even nails is far greater than the Chinese industrial sector can supply. Such items are rationed. Local units in desperate need for an item such as nails have to go to alternative unofficial channels of supply. The village may pay extra on the illegal black market; or barter goods with other production units; or establish informal connections with supply warehouse officials, sometimes by plying them with presents or favors.

"Blat" is the Russian practice of using personal "pull" and favors-trading to obtain commodities and services to which a person or organization is not lawfully entitled.<sup>20</sup> This term "blat" has its counterpart in a Chinese term -- guanxi (connections). Guanxi is as widely practiced in China as blat is in Russia -- and indispensable for the Chinese economy's smooth functioning.

In Russia, blat has given rise to a type of personnel known as the "tolkach", or "pusher" -- someone who pushes for the interests of his economic unit.<sup>21</sup> In China, too, the need for connections and favors-trading has spawned the "procurement officer". The informal procurement of scarce materials is so crucial to the rural economy that the Chen Village brigade and most of its ten production teams have their own procurement officers.

In the villages the people who often are best placed to establish guanxi are the urban youths who have been sent down to the

countryside. The fathers of some of these youths are men who can be of help to a village. One pertinent example is a young settler in Chen Village whose father works at the county railway freight yard devising delivery schedules. Playing upon his father's position, the son was able to build a guanxi network of considerable value:

"I went to the county resources bureau for nails. I knew the people there. They're friends of my father. When they want to have things transported they go to my father, and when my father wants something, he goes to them. When I was young he used to take me around with him to tea-houses, and so I got to know his friends. Now, when I see them, they will say: "eh, this is so-and-so's son!" Then I can go right ahead and ask them: "eh, you have any nails? Now, come on....." It's based purely on these social relationships".

But any procurement officer will have to establish good guanxi at a very extensive range of agencies, and family connections will not always suffice. A successful procurement officer, like the Russian tolkach, must also be outgoing, entrepreneurial, pushy, an insistent bargainer, a sweet-talker when necessary, not too highly principled, a pragmatist who gets things done and is willing at times to take risks. Our interviewee had been able to draw upon all of these personality traits.<sup>22</sup>

It can be an enjoyable job at times, since a procurement officer (like a Western business executive) sometimes also finds it pays to mix pleasure with business. He must know how to get a valued supplier into an accomodating mood during / lunch or dinner out on the town -- and at his own unit's expense.

Because good procurement officers are invaluable to brigades and production teams, the brigade and team leaders may also grant them other types of special privileges. Our interviewee was provided with as many workpoints as the strongest and hardest working peasants in his production team; and every time he went on a procurement mis-

sion he also enjoyed a subsidy of an extra half day's income. When not on errands he was supposed to work in the fields. But he normally came late to work and took off for afternoon naps. The other team members were not willing to complain to him too vehemently about this, though, since he privately could help them get building materials:

"I'd file a false report at the county resources department claiming the production team needed, say, cement desperately. Best of all was to declare that the team needed more storage houses for the state's grain, or needed cement for building concrete drying yards for the grain. Actually our team had enough storage space, etc. But through my guanxi I'd get the material to build private residences. Without resorting to these illegal means there was no way to build a private house in the village. Materials were simply so scarce."

But for important deals a village needs more than a well-connected and clever procurement officer. It also sometimes needs to bargain from a position of strength -- through scarce resources of its own. Chen Village holds two good cards in its hand. At its own discretion the village can sell timber from its reforested hillsides to other villages or county factories; and timber is in short supply in Guangdong province. The bricks from the village brick kilns are similarly at the village's disposal; and bricks, too, are in desperately short supply in Chen Village's county. A former Chen Village resident explains,

"Units without their own brick sources will send someone to Chen Village to negotiate. Selling bricks to whomever the brigade wants offers the brigade a certain power. It can get stuff otherwise unobtainable. The brigade may not even sell the bricks, but instead engage in a fair exchange (gongping jiaoyi) with a unit which has something Chen Village needs. It might even involve a three-way exchange -- giving our bricks to a village that produces something that a factory somewhere needs, some factory with a product that Chen Village needs. These deals and sales can be very complicated, much more so than just that."

Often there is no bartering at all; Chen Village simply sells its bricks as a 'favor':

"We can use most of our bricks in our own village. Why let other villages have them when we need lots of bricks ourselves?...But the village production head and village Party secretary let their friends buy our bricks. After all, these friends are fellow cadres whom they meet at meetings at the commune market town. If we let them buy bricks they'll be appreciative, and that type of guanxi will prove helpful to our village in the future".

Such local guanxi networks sometimes are needed simply as the first steps in intricate trade-offs that can reach extraordinary lengths. These <sup>are</sup> made easier by the existence of second-economy trade centers -- the teahouses. They were frequented by the leisured gentry before the Communists came to power. The government kept many of them open, and their best customers now are procurement officers and middlemen in search of deals. In fact, different Canton teahouses are known to specialize in deals for different categories of products.

A Chen Village procurement officer may well have visited these teahouses when Chen Village needed a large motor that was not available through official allocation channels. The brigade-level procurement officer -- the son of a former Canton businessman -- had learned that his best source of supply was a Shanghai factory. This factory illicitly had shifted part of its production into warehouses, so as to be able to sell or barter motors discreetly. But the Chen Village procurement officer first had to find someone in his own province to whom the Shanghai factory owed a favor -- apparently the procurement officer of a provincial factory or a provincial official. He then had to figure out if any units or persons who

were already in Chen Village's debt had a product needed by the procurement officer or official he was wooing. If not, he needed to set up the appropriate intermediate barter through the teahouses. Finally, carrying with him an appropriate letter of introduction to the Shanghai factory, he traveled the thousand miles to Shanghai to negotiate the actual transaction.

These types of informal tradeoffs are illegal but are permitted to operate fairly freely by the government so long as the individuals involved do not benefit privately from the transactions. In fact, Chen Village's procurement officer needed and received a travel permit to get to Shanghai. Officials realize that without these informal deals production in China would be snarled by the rigidities of the official allocation systems. As a factory in Shenyang recently complained,

"We can get only about 25% of the cement we need and have to obtain the rest by ourselves. How must we obtain it? By bartering or by buying cement of inferior quality at high cost." 23

The government also knows, however, that the shortage of materials in the first economy's pipelines is exacerbated by the very fact that each unit needs to barter and to hoard materials for a rainy day. But periodic government campaigns to raid industrial warehouses to reduce the hoarding has done little to relieve the fundamental problems. Once again, the government has decided recently that if you can't lick 'em, join 'em. If the bartering is necessary, let it be done openly -- with greater convenience, less expense, less need to hoard and less chance for corruption. As one example,

"Supply departments in Jilin city have taken measures to regulate supplies that have accumulated in warehouses by calling a comprehensive supply exchange meeting. At the meeting, a total of 2,610 contracts were signed involving Y25.18 million (about U.S. \$18 million). 308 units in the city participated."24

But for the foreseeable future, illicit deals probably will remain far more common than this type of aboveboard bartering. In most respects, the government continues to force units into these backdoor trade-offs and guanxi networks. As one very pertinent example, rural collectives were totally excluded from Jilin city's "comprehensive supply exchange meeting". It is doubtful if the teahouses of Jilin have lost much business.

## VI. Second Economy Workers

The final major way in which the countryside enters the second economy is through itinerant work and 'black labor'. Like the other aspects of the second economy that we have touched upon, (i) much of this activity is perfectly legal, (ii) much of it is discouraged by the state even when legal, (iii) some of this labor is distinctly illegal but tolerated by authorities, and (iv) certain types of black labor incur criminal penalties if discovered. Largely these second economy jobs fill in the cracks and crevices that are difficult for an administered economy to cover effectively.

Perhaps the most obvious examples are the itinerant rural craftsmen and peddlars -- the menders of pots and pans, knife grinders, barbers, candy vendors and other peddlers.<sup>25</sup> To support their trades, they must make a circuit of large numbers of villages. But the Communist government does not want free-floating operators. So the itinerants are all required to belong to an agricultural production team in their native village and must strike a bargain with their team to receive certificates authorizing their travels. The production team usually demands a fixed sum from the itinerant every month, and everything above that becomes the itinerant's personal income. In return for the monthly sums given over to the team, the itinerant also receives a share in the post-harvest division of the production team's proceeds.

But the individualistic and profit-seeking nature of the itinerants' work still runs counter to Party ideology, and during radical periods such as the Cultural Revolution and the mid 1970s

they came under attack. Itinerant trade was forbidden in some rural districts, and in others the range of permissible services was reduced. As just one example, during and after the Cultural Revolution Chen Village's carpenters were confined to the village and became fulltime brigade employees. But the new system did not entirely satisfy either the carpenters or the private needs of peasants: "So after work they still carry out their own sideline work. If a carpenter makes a table for you and you give him some money, who's to know?"

Though the state frowns on individualized labor in the second economy, the government is more tolerant when the second-economy work is collectively organized. Brigades and production teams, for example, sometimes send squads of peasants -- entirely legally -- out to work privately for other collectives or factories. To avoid disrupting agricultural production, the government strongly prefers that these squads operate only during slack seasons. But very often a successful squad will continue its operations year-round. One of our interviewees from Chen Village had belonged to such a squad. It sought out construction work in the county towns and arranged to get paid for the amount of construction it accomplished. By working furiously and putting in over-time, each member of the squad earned Y100 a month. (By comparison, the average urban factory worker receives only about Y50 a month, and a Chen Village peasant earns less than Y30 working in the collective fields.) But in an arrangement similar to the itinerant peddlars', each squad member had to contribute Y50 a month from his earnings to his production team in Chen Village.

An interviewee from a village not far from Chen Village went a step further. He got together with other peasants he had met



on construction sites, and they privately organized their own mobile work squad that worked at sites throughout the county. To secure the necessary certificates from his village he agreed to send his production team Y75 every month. But as a member of an experienced and skillful labor squad he grossed Y5.50 a day, which left him with a very sizeable net income.

On the other end of the spectrum from such free-floating private operations, a brigade-managed labor squad sometimes signs a binding contract with a nearby industrial plant, railway or road construction project. The brigade gets paid directly for the labor supplied. But / <sup>this</sup> may still be second-economy labor -- and sometimes illegally so. An interviewee from one of Guangdong's mountainous counties provides an example:

"A mine was opened but there weren't enough workers, so the mine recruited groups of peasants from the countryside in order to meet its quota. The workers recruited this way weren't state-paid; in fact, they weren't even reported by the mine. This kind of thing is referred to as an 'underground factory' even when it's at a state enterprise, and the labor employed this way is called 'black labor'. Those peasant-workers drew their grain rations from their own production teams. But sometimes, to encourage them to work harder, the mine also provided them with extra grain rations that the mine had procured illegally."

From available information, it appears that much of this illegal hiring has little or nothing to do with corruption. As in some of the blat that we have observed, supervisory cadres simply have to cut corners and enter into illegal activity to accomplish their own responsibilities effectively. But cases occur where corruption and greed/<sup>definitely</sup> do enter into hiring practices. The very illegality of the hirings practically invites criminal abuse. Several reports in the Chinese mass media are very much in line with the picture that many Western

scholars have painted of the Soviet Union's second economy.

There is this example of contract racketeers:

"...there was not only an illegal surge of rural population into the city of Yen-an and its suburbs over the past few years. There are also speculators and black contractors... (who) privately undertook repair and construction projects... Some of the contractors were criminals and bad elements. They fearlessly engaged in corruption, theft, extortion, blackmail, embezzlement of state funds, and enslavement of workers." 26

The Chinese press customarily engages in hyperbole, but it is very obvious that labor middlemen of an unsavory sort do ply their trade.

A second report from Yen-an explains why such illegal contractors had been able to flourish:

"When erecting a factory building, the Party branch of the city papermill used an illegal contract labor force and protected and supported illegal foremen who embezzled state funds (i.e. took a slice of the contract as a personal profit?). The head of the mill Party branch and another branch member took bribes and used their powers to serve the capitalist activities of these illegal foremen. Thus, the Party branch became a protective umbrella for capitalism... Some leading cadres in the city's Communications Administrative Center regularly took bribes and supported and protected illegal contract labor and illegal transport". 27

## VII. Corruption?

In short, bribes-giving and various other sorts of corrupt monkey-business do exist in China. But this is not equivalent to saying that the Chinese economy, or the second economy for that matter, are either rooted or mired in corruption. They may be; the authors cannot claim any intimate knowledge about most regions of China or about many important areas of the economy. But at least from the perspective of Chen Village and other villages in our sample, corruption does not seem to be a major fact of life. Higher level officials do not descend on these villages demanding payoffs to let second economy endeavors continue. Nor are there any organized payoffs or official rackets within these villages. In fact, there does not even seem to be terribly much individual graft. A Chen Village official who appropriates team produce for his own private use or who accepts gifts is marked out by neighbors as corrupt and faces the danger of disgrace or worse the next time a national political campaign against cadre corruption erupts. Local officials have become careful.

Peasants' complaints center instead on political abuses of power by local officials -- officials who use "class struggle" campaigns to 'get' people they don't like. And the peasants do complain also of the on-the-job 'perks' that some local officials consider their due: that Party committee meetings which run into the dinner hour sometimes become excuses for brigade and team cadres to snack on village fish; that commune officials always seem to converge on the village on tours of inspection when the village lichee fruits are ripe enough to sample. But the disdain with which former villagers recount these various tales of "eating big and drinking big" suggests that local officials are not expected

to pursue these petty material advantages; their behavior is out of line with the "image" of what a rural cadre should be like. And as noted, any village officers who go beyond these occasional on-the-job perks are in trouble.

If not principally corruption what, then, is the basis for illicit second economy activity -- and why do local cadres sometimes connive in it? As we have seen, the peasants and local cadres generally approve of these activities as necessary elements of the rural economy. Even when the ideologues in the Party leadership fulminate against private endeavors and peasant markets, villagers (though not all local cadres) view these undertakings as needed supplements to their diets and incomes. Cadres and peasants in poor districts see the government crop quotas as unfair impositions that warrant their own concerted efforts at concealment. The peddlers and the members of labor squads almost certainly consider themselves to be legitimately and gainfully employed. Some village factories commission illegal middlemen and a great many village enterprises engage in semilegal barter and favors-trading because without these practices a village factory could not prosper or a village economy develop.

When village leaders or procurement officers leave their village on trips, they do however, often take along a bit of the village's surplus oil and sugar as gifts for officials or county factory personnel. The peasants may not particularly like it and may at times even resent it, but it is part and parcel of getting things done efficiently. If the 'gifts' are not of any large value, Chen Villagers will condone them as merely part of the "human flavor" (renqing wei) -- the gracious favors -- that pave the way to smooth guanxi relations. The peasants see a distinction between this and

the "eating big, drinking big" of officials. The guanxi networks help keep the wheels of the rural economy oiled when the first-economy allocation systems cannot provide the needed supplies; "eating big" is simply an abuse of authority. The two practices do, of course, sometimes overlap or intermingle -- and studies of the East European second economies have not always bothered analytically to separate the two. But a story from Chen Village told to us at a dinner party presents the distinction very nicely.

"Our commune Party secretary decided to use the Party's birthday as an excuse to have a cadre feast, and he went to the commune supply station to try to get duck eggs for it. He was told there weren't any available. But he had barely left when he saw another fellow leaving with a large basketful. The Secretary went back and scolded the station head: 'Ah, so guanxi is more important even than the Party!'"

It is probably an apocryphal story. The Party, not guanxi, runs China. But all the former Chen Villagers at the dinner table grinned broadly. They appreciated the punchline.

## NOTES

1. A. Katsenelinboigen, "Coloured Markets in the Soviet Union", Soviet Studies, Vol. XXIX, No.1 (January 1977), pp. 62-85.
  
2. The authors are collaborating with Prof. Richard Madsen in writing the recent socio-political history of Chen Village. A book is forthcoming.
  
3. This estimate is based upon Parish and Whyte's sample of 63 Guangdong villages, acquired through interviewing in Hong Kong. William L. Parish and Martin King Whyte, Village and Family in Contemporary China (Chicago and London: University of Chicago Press, 1978) p. 53.
  
4. Jonathan Unger, "Collective Incentives in the Chinese Countryside: Lessons from Chen Village", World Development, Vol. VI, No. 5 (May 1978), pp. 583-601.
  
5. Different categories of team members are allotted different proportions of this collective grain, in line with what are calculated to be the differences in their consumption requirements. During a somewhat good year in Chen Village -- still somewhere below that grain ceiling -- each working man was allotted 30 kilograms (66 pounds) per month, a woman 25 kilos, the retired elderly some 17-20 kilos, and children, depending on their age, some 10-15 kilos.
  
6. Beijing Review (October 26, 1976), p. 15. Until the government's recent hikes in the surplus-grain price, Chen Village was offered a price some 42 per cent higher than the quota'd grain price. The state paid Chen Village Y9.8 per 50 kilos (100 jin) for the quota'd grain, which was up from a price of Y8.9 paid until about 1966. Surplus grain brought in Y14 per 50 kilos.
  
7. "Regulations on the Work of the Rural People's Communes (Revised Draft), September 1962", Documents of the Chinese Communist Party Central Committee, September 1956-April 1969, Volume I (Hong Kong: Union Research Institute, 1971), pp. 719-722. The same guarantee has been reiterated recently as part of the program of Four Modernizations. See Xue Muqiao, "A Study in the Planned Management of the Socialist Economy" Beijing Review (October 26, 1979), pp. 14-20.
  
8. People's Daily (Beijing), November 5, 1961, quoted in Kenneth Walker, Planning in Chinese Agriculture: Socialization and the Private Sector, 1956-1962 (London: Frank Cass & Co., 1965), p. 93.

9. The families of Chen Village bought their grain for household consumption at a price of Y9.8 per 50 kilos (that is, at the quota-grain price), whereas workers reportedly bought polished rice in the stores of Canton for Y13.4.

10. In the suburbs of Canton, according to one interviewer, a third to a half of a farm family's total cash income comes from private endeavors. (John Burns, "The Radicals and the Campaign to Limit Bourgeois Rights in the Countryside", Contemporary China, Vol. I, No. 4 (January 1977), p.27). A second scholar who has done extensive interviewing about the Guangdong countryside calculates that generally twenty to forty percent of a rural family's total income derives from private enterprises. (Deborah Davis-Friedmann, "Strategies for Aging: Interdependence Between Generations in the Transition to Socialism", Contemporary China, Vol. I, No. 6 (March 1977), p. 36.) In the model communes visited by Burki in the 1960s about twenty percent of total family income came from private sources. (S.J. Burki, A Study of Chinese Communes, 1965 (Cambridge, Mass.: Harvard U. East Asian Research Center, 1969), pp. 40-41.)

11. According to Parish and Whyte (op cit, p. 119) these clearings officially are not permitted to exceed fifteen percent of a team's land.

12. Xinhuashe, May 10, 1979, in Foreign Broadcast Information Service: China Daily Report (hereafter FBIS), May 10, 1979, p. L8. On state procurement channels, marketing district sizes, market days and free markets, see Udo Weiss, "China's Rural Marketing Structure", World Development, Vol. VI, No. 5 (May 1978), pp. 647-662; also G. William Skinner, "Marketing and Social Structure in Rural China, Part III", Journal of Asian Studies, Vol. XXV, No. 3 (May 1965), pp. 363-399; also Parish and Whyte, op cit, pp. 305-308.

13. In the Chen Village marketing district, for example, each family annually has to sell one private pig, two chickens, one goose and a kilo of eggs to the state. Through such quotas the government obliges peasant households to participate in the private sector -- for any household without a hog would have to buy one from a neighbor so as to sell it at a loss to the state.

14. Beijing Radio, December 20, 1976, in FBIS-CHI, December 30, 1976, p. E9.

15. Beijing Radio, April 27, 1979, in FBIS-CHI, April 30, 1979, pp.L14-15.

16. Beijing Review( April 20, 1979), p. 26

17. Beijing Review (October 26, 1979), p. 15.

18. Beijing Review (June 1, 1979), p.4.

19. These passages were culled from three different interviews with the same respondent. Two of these interviews were conducted by Christine Wong, who graciously gave us access to her transcripts.

20. For a discussion of blat see Joseph S. Berliner, "The Informal Organization of the Soviet Firm," The Quarterly Journal of Economics, Vol. LXVI, No. 3 (August 1952), pp. 356-358.

21. Joseph S. Berliner, Factory and Manager in the U.S.S.R., (Cambridge, Mass.: Harvard University Press, 1957), pp. 207-230.

22. One is reminded of Berliner's description of the tolkach -- that in Soviet industry it is precisely the supplies purchasers who develop the wheeler-dealer style and outlook of the classical entrepreneur in the capitalist world. Our interviewee, two years after arriving penniless in Hong Kong as an immigrant, was already prospering in that acutely capitalist city as a middleman in deals between merchants and subcontractors. He attributes his rapid success to his entrepreneurial experiences as a procurement officer in China.

23. Xinhuashe, December 15, 1978, in FBIS-CHI, December 20, 1978, p.L2.

24. Zhangchun Radio, May 22, 1979, in FBIS-CHI June 22, 1979, p. S6.

25. According to Chinese government statistics, in 1973 private peddlars accounted for 0.2 percent of the total volume of retail sales in China. Guangming Ribao (Beijing), May 7, 1975, p.2.

26. Xian Radio, June 19, 1978, in FBIS-CHI June 23, 1978, p.M3.

27. Xian Radio, May 19, 1978, in FBIS-CHI, May 25, 1978, pp. H2-3.