

was not safe, when you allow the British System to exist on this planet. It had to be destroyed. Roosevelt—I didn't know it then—Roosevelt had that intention. Roosevelt planned to ally with China, and the Soviet Union, *against Britain*, at the end of the war, to destroy the imperial system. This the majority of the American soldiers returning from overseas duty, that I knew, tended in that direction, because I was organizing around that then. And, they agreed with me. I got back, and they changed.

Now, how many people of my generation, were willing to stand up, to what happened in the United States in 1946 and on under Truman? Almost none. As I said, the same thing happened with the German population, with the “*Gleichschaltung*.” You don't think. You're careful of what you say, you're careful of what you think. But you have a few of us, who stand up and refuse to capitulate. And those of us who *refuse to capitulate to mediocrity*, against all odds, are essential, as the true patriots of our nations. If we are eliminated, the nation will go to Hell. And it would go to Hell, because it allowed itself to be ruled by the principle of mediocrity.

Don't look in Russia, at communism, for what was evil. Because, remember, the Russian people are the Russian people. They're born every day, or used to be, anyway. Every baby is an angel, a potential angel. When you don't let the angels come forth to renew society, if you have a system to prevent them from becoming angels, you repress them, and none escapes. Then you have no leaders, and if you have no true leaders, who are fighters, who will not give up, who are morally strong, then you will not have the ideas, you will not have the programs, the things that are necessary to renew the nation, to correct its errors.

And that's what happened. There were people in Russia who could have done something, but the leadership could never come forth, to do what had to be done. And when they praised Brezhnev for being a mediocrity, and that was considered the moral standard of leadership of the Soviet Union, you say, this nation is doomed, by itself. Doomed, not by any flaw in communism—yes, there were flaws, many of them, in the Soviet system, many flaws—but that was not the problem. The problem was, the system was so efficient in enforcing mediocrity. And that's what I had hoped to break through, back in 1982-83, by giving a new dimension to the scientific, military-industrial complex for renewing the economy. So that you would break something free, to allow the intelligence of the potential angels to take over.

So, don't look for what was wrong in what happened, as such. Look for what was wrong in what was missing, as in science. Always look for the missing principle. When an error occurs, what was missing? Because human beings are intrinsically noble, they are the greatest thing in the universe. If you let them become what they should become, you will always have progress. And the only time a nation destroys itself, a civilization destroys itself, is when it becomes *efficient* in enforcing mediocrity.

## China's plan for economic growth

by Bi Jiayao, Ph.D.

*This paper was presented at an economic seminar organized by the Schiller Institute in Wiesbaden, Germany, on Dec. 16, 1997. It was entitled “The History and Current Status of Economic Reform in China.” It has been slightly edited, and subheads have been added.*

China began its economic reform and opening policies in the late 1970s. After nearly 20 years of economic reform and opening up, China has made great achievements in both economic development and the establishment of a socialist market economic system. From 1979 to 1996, the Chinese economy grew 9.87% annually on average. Total trade volume increased from \$29.3 billion to \$289.9 billion. The cumulative utilization of foreign capital totalled \$283.9 billion, including \$174.9 billion in foreign direct investment. The people's living standard has also increased by a large margin. Having successfully realized a soft-landing in 1996, China's economy is expected to increase by 9% for 1997, with the inflation rate being reduced further, to 5%.

Since the 1950s, China for many years adopted a highly centralized planned economic system. At that time, this system made a great contribution to the key construction projects, rational allocation of resources, optimizing regional economies, and building a preliminary basis for industrialization by concentrating the country's financial, material, and human resources, promoting economic and social development in China.

However, the defects of this centralized, planned economic system became more and more obvious, with the continuous expansion of the scale of economic development, and the increasing complexity of the economic structure. The policy of one-sided increases in the level of public ownership did not conform to the reality of China's economic development. The government intervened too much in the business affairs of state-owned enterprises, with the enterprises lacking essential independence in their operation and management. Overly rigid economic planning curtailed the role of the market mechanism, resulting in serious distortions in the economy. In addition, blind egalitarianism in income distribution reduced the economic efficiency by restraining individual incentives. These and other drawbacks seriously obstructed the economic development in China. Thus, planned and step-by-step economic restructuring became unavoidable.

## Reform begins in the countryside

In 1978, the Third Plenary Session of the 11th Central Committee of the Communist Party of China (CPC), made a decision to restructure China's economic system. The reform began in the countryside. From the end of 1978, the Chinese government began to adjust its agricultural policies and restructure the rural economic system, formulating a series of new policies to promote agricultural development. The most important measures have been the implementation of the contractual responsibility system, with remuneration linked to output, based on the household, and the establishment of a socialized service system.

Under this system, the collectively owned land is contracted to farmers for operation. After delivering necessary yields to the state and the collective, farmers are allowed to retain the residual income. At the same time, centralized and assigned purchases of farm produce and sideline products were gradually abolished, and price controls over most farm produce and sideline products have been also relaxed. In addition, the rural industrial structure was readjusted, and township and village enterprises (TVEs) were encouraged to develop rapidly, diversifying rural economic activities. With the implementation of these rural reform measures, the enthusiasm of more than 800 million farmers for engaging in all kinds of productive activities has been greatly mobilized. The

agricultural output increased 2.46-fold from 1978 to 1996. The TVEs have maintained a high growth rate in output. By the end of 1996, there were more than 23.36 million TVEs in China, and more than 135.08 million persons have been employed by these enterprises, largely reducing the employment pressure of the surplus labor in the countryside. Now the business scope of the TVEs has expanded into industry, agriculture, transportation, construction, mining, and services sectors. This has diversified the rural economic structure.

## The focus on urban reform

The smooth progress of rural reform has created favorable conditions and generated experiences for restructuring the entire economic system. In October 1984, the Third Plenary Session of the CPC 12th Central Committee promulgated *The Decision on Restructuring the Economic System*, signalling that the economic reform in China was entering a stage with urban reform as the focus. The urban economic reform has taken the following main forms:

First, adjusting the structure of ownership: Presupposing public ownership as the predominant form, China is promoting the development of a variety of systems of ownership within the economy, with collectively owned enterprises, individual and private enterprises, and foreign-funded enterprises encouraged to develop. In 1995, the share of the state-owned enterprises in the total industrial output value declined to 30.9% from 77.6% in 1978, while the share of collectively owned enterprises increased to 42.8% from 22.4% in 1978. The individual, private, and foreign-funded enterprises together accounted for 26.3% of the total in 1995.

Second, expanding the decision-making power of state-owned enterprises and strengthening their vitality. Under the precondition of abiding by the relevant state laws and regulations, the decision-making power of state-owned enterprises was expanded with regard to production plans; purchasing and marketing of products; pricing; the use of funds retained within the enterprises; disposition of property, labor, and personnel; distribution of wages and bonuses; and economic coordination. At the same time, a contract operating responsibility system was put into practice in state-owned enterprises, horizontal link-ups between enterprises were actively promoted, and enterprise groups were organized. In addition, a pilot share-holding system was introduced.

Third, implementing price reform and fostering the market system. With the advancement of price reform, the market has come to play the guiding role in price formation. By now, the prices of around 95% of industrial products are determined in the markets by the interaction of demand and supply. The prices and charges for infrastructure products and services have also been gradually adjusted to reflect their costs, with the state subsidies sharply reduced.

Fourth, restructuring planning, public finance, and the banking system, and gradually improving macroeconomic control. The scope of directly planned management has been

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narrowed, and, at the same time, the role of market regulation has been strengthened. Administrative measures regulating the economy have been replaced by economic and legal ones. The fiscal reform changed the highly centralized and unified system of fiscal revenue and expenditure, into a colorfully named “divide up the stoves and eat” system, thus giving greater incentives for local governments to increase fiscal revenues. In the banking sector, the central bank function of the People’s Bank of China has been strengthened; several specialized banks were established to directly handle their banking business, and a number of non-banking financial institutions have been set up. At the same time, securities markets, including bond markets, stock exchanges, and foreign exchange markets, were set up and gradually developed.

Fifth, restructuring the foreign trade system in line with international practices, and on the basis of China’s own conditions. Export subsidies and import regulation duties have been abolished, quotas and licensing for import have been substantially reduced, and mandatory import and export plans eliminated. Tariffs have been gradually reduced, and the Chinese markets have become more open to foreign products.

Sixth, reforming the income distribution system and implementing various distribution forms with “earning according to one’s work” as the mainstay. In government departments and institutions, the wage structure assigns one’s wage according to the position he fills. In enterprises, the total payroll is tied to the enterprise’s economic performance, with workers’ wages linked to individual contributions. Other lawful incomes are also recognized and protected. At the same time, the reform of the social security system, with unemployment relief and insurance and pensions as the focus, has also been proceeding step by step.

## **A ‘socialist market economic system’**

On the basis of these economic reforms, the 14th National Congress of the CPC, in October 1992, put forward the establishment of a socialist market economic system as the goal of China’s economic reform. This is an historic change in China’s economic development. The socialist market economy to be established in China, is closely combined with the socialist system. The market should play a basic role in the allocation of resources under the macroeconomic control of the state. In November 1993, the Third Plenary Session of the 14th CPC Central Committee issued a *Decision on Certain Issues Concerning the Establishment of a Socialist Market Economic System*, which became a general plan and action program for China’s economic reform.

The main content of the Decision includes: adhering to the principle of jointly developing various economic components with the public ownership remaining as the mainstay; further transforming the operational mechanism of the state-owned enterprises; establishing a modern enterprise system with proper rights and responsibilities clearly defined; separating government administration from enterprise business activi-

ties; running enterprises scientifically to meet the requirements of the market economy; establishing a unified and open national market, and the connection of domestic and overseas markets, so as to encourage the optimization of resources allocation; transforming government function in administering economic activities, to establish a sound macro-control system, with indirect measures as the main policy instruments, so as to guarantee the healthy development of the economy; establishing an income distribution system, with distribution according to work as the mainstay, giving precedence to efficiency and taking account of fairness; encouraging some areas and people to become rich before others, while striving to achieve common prosperity; and finally, establishing a multi-tier social security system to provide both urban and rural residents with certain social protection in line with Chinese national conditions, so as to encourage economic development and social stability.

From 1994, China’s economic reform has advanced from a stage, with reform proceeding from item to item, in turn, to a new and comprehensive stage stressing breakthroughs at key points. In that year, a decisive step was taken in the economic reform. According to the requirements of establishing a socialist market economic system, a series of important reform measures have been taken in respect to public finance and taxation, banking and the financial system, the foreign exchange regime, the foreign trade system, the investment system, the price system, and the circulation and marketing system. And, some progress has already been achieved.

A new public financial framework has been basically set up, with the system of revenue-sharing between central and local government as its core, and taxation on turnover, with value-added tax as the main part, has begun to operate normally. The income tax for domestic enterprises and individuals has been unified, and, in particular, the high income tax rate for state-owned enterprises significantly reduced. Taxation was also simplified, and the tax burden shared more evenly.

In the banking sector, the ability of the central bank to exercise macro-control over the money and credit supply was strengthened, and three policy-oriented banks were established. With the policy-oriented banks, the specialized banks were required to transform into state-owned commercial banks. At the same time, the foreign exchange regime was largely restructured. The official exchange rate for the renminbi (RMB, China’s currency) was unified with the “swap” rate, and the newly established foreign exchange market began to determine the exchange rate mainly by market mechanism. The exchange rate of RMB remained stable during this restructuring. In addition, progress was made in restructuring the state-owned enterprises. The establishment of a modern enterprise system among large and medium-sized enterprises and enterprise groups, and the reform of enterprises in cities, went into trial operation in an all-round way. This provided ways to solve certain problems which emerged in the reform of the enterprises.

## Developing the productive forces

China is currently in the primary stage of socialism, and will remain in this stage for a long time to come. This scientific thesis was reaffirmed in the 15th National Congress of the CPC [in September 1997]. The fundamental task of socialism is to develop the productive forces. During the primary stage, it is all the more necessary to give first priority to concentration on development of productive forces. According to the strategic objectives set by the 13th National Congress of the CPC held in 1987, China's modernization drive would proceed in three steps: first, doubling the 1980 GNP to solve the problem of the shortages of food and clothing; second, quadrupling the 1980 GNP by the end of the century; and third, basically completing the country's modernization, raising GNP per capita to that of intermediate-level developed countries and achieving a fairly well-off life for the people.

At this time, the first step has been essentially achieved, and the second step was also achieved in 1995, ahead of schedule. Therefore, a new objective was put forward in 1996, in the *Outline of the Ninth Five-Year Plan for National Economic and Social Development and the Long-Range Objective to the Year 2010*. The major objectives for the Ninth Five-Year Plan are as follows: complete the second phase of the strategic plan for the modernization drive in an all-round way, and quadruple the 1980 GNP per capita, assuming that the population in the year 2000 will have increased by 300 million more people than in 1980; raise the people's living standard to that of a fairly comfortable life, with poverty practically eradicated; and speed up the construction of a modern enterprise system, and preliminarily establish a socialist market economic system. By 2010, the GNP will be double that of 2000, people will enjoy an even more comfortable life, and a relatively complete socialist market economic system will come into being.

## Achieving basic modernization

The period from the present to the first decade of the next century will be crucial for China to realize its strategic objective of the second step, before marching toward that of the third step. The 15th National Congress of the CPC proposed that the fundamental shift of the economic system, and of the mode of economic growth, must be promoted so as to fulfill the Ninth Five-Year Plan and attain the Long-Range Objectives Through the Year 2010, laying a solid foundation for achieving basic modernization by the middle of the next century. Thus, by keeping to the orientation of building a socialist market economy, new breakthroughs must be made in some major aspects of economic reform.

First, readjust and improve the ownership structure. It is China's basic economic system for the primary state of socialism to retain a dominant position for public ownership, and to develop diverse forms of ownership simultaneously. However, the full meaning of the public sector of the economy should be seen. The public sector includes not only the state-owned elements in the sector of mixed ownership, but the

dominant position of public ownership should manifest itself mainly as follows: Public assets should be dominant in the total assets of the whole economy, and the state-owned sector should play a leading role in economic development. Public ownership can and should take diversified forms, including a share-holding system, joint stock partnerships, and joint ventures, as long as the scope of control of public capital can be expanded and the dominant role of public ownership enhanced.

Second, accelerate the reform of state-owned enterprises. The orientation of the reform of state-owned enterprises is the establishment of a modern enterprise system. The large and medium-sized state-owned enterprises will be converted into standard corporations according to the requirements of "clearly established ownership, well-defined rights and responsibilities, the separation of enterprise from administration, and scientific management," so that they will become corporate entities and competitors in the market. The reform of state-owned enterprises will be combined with their reorganization, renovation, and better management. A strategic reorganization of state-owned enterprises will be effected by good management of large enterprises, while adopting a flexible policy toward small ones. Highly competitive large enterprise groups with trans-regional, inter-trade, cross-ownership, and trans-national operations will be established, mainly through re-allocation of capital and the market mechanism. The small state-owned enterprises will be invigorated by relaxing state control, reorganization, association, mergers, leasing, contract operation, joint stock partnership, or selling them off. At the same time, supportive reforms will be pressed ahead, including building an effective mechanism for the management, supervision, and operation of state assets, to preserve or increase their value, and stepping up the establishment of a social security system.

Third, improve the structure and mode of distribution. A variety of income distribution forms will co-exist, while the system of distribution according to work, is to be kept as a primary form. By combining remuneration according to work and remuneration according to production factors, and by giving priority to efficiency with due consideration to equity, a distribution system conducive to optimizing the allocation of resources, promoting economic development, and maintaining social stability, will be established.

Fourth, give full play to the role of the market mechanism and improve the macroeconomic control system. In order to make the market play a basic role in the allocation of resources, a unified and open market system with orderly competition will be built, by developing all kinds of markets, with emphasis on markets for capital, labor, technology, and other factors. At the same time, the macroeconomic control system should be strengthened in order to maintain sustained and stable economic growth, while curbing inflation and promoting optimization of the major economic structures.

Five, continue to expand opening up. Opening to the outside world is China's long-term basic state policy. Facing

the trend of globalization, the pattern of opening up will be improved in all directions, at all levels, and in a wide range, so as to develop an open economy, enhance China's international competitiveness, optimize economic structure, and enhance its comprehensive national strength. For this purpose, China will continue to deepen the reform of the foreign trade system, actively participate in regional economic cooperation and the global multilateral trade system, and rationally and effectively make use of foreign capital. China will open its market even wider to the outside world.

With the implementation of the above reform measures, China will, preliminarily, establish a socialist market economy by the middle of the next century.

## Armenia's economy, and the danger of war

by Haik Babookhanian

*Haik Babookhanian is the editor of Hanzapetakan, the newspaper of the Republican Party of Armenia, and a member of the Presidium of the Union of Constitutional Rights of Armenia. The following is edited from his remarks to an economic seminar organized by the Schiller Institute in Wiesbaden, Germany, on Dec. 16, 1997.*

Just after getting independence, Armenia's development was hampered, from the one hand by Azerbaijan's aggression against Nagorno-Karabakh, and the associated blockade of the roads organized by Azerbaijan and Turkey; on the other hand, by the activities of the International Monetary Fund, which, parallel to lending credits, used the hard situation which Armenia faced to dictate conditions which, in total, destroyed about 60-70% of Armenia's industry, reduced to about one-fifth the agricultural land under cultivation, created mass unemployment, which resulted in the emigration of one-third of the population, and, finally, drastically reduced the birth rate and the average life expectancy.

As a result, Armenia ran into external debts of almost \$690 billion, which exceeds the annual budget of Armenia by more than two times. And now, in order to pay the debts, Armenia is obliged to obtain new credits. The external debt as compared to the gross domestic product has reached the disastrous ratio of 50%. But when, in 1994, after the armistice, the political situation in the Transcaucasus was stabilizing and there was a possibility to restore the losses by working in peace, probably some circles didn't like these prospects. And, during the last months, Nagorno-Karabakh and Armenia have been put under heavy pressure, when the Organization for Security and Cooperation in Europe demanded that Kara-

bakh, which had already been independent from Soviet Azerbaijan for ten years, and which had never been a part of independent Azerbaijan, be yielded to Azerbaijan.

It is clear that in this case, again, wars will occur, with thousands of deaths, invalids, and refugees, and thus Armenia and Azerbaijan will be thrown back in their economic development again by several decades. This evident pressure is portrayed as necessary to protect the oil companies' interests (the major part of which are English and American). And, Armenia is simply told that if it goes along with this perspective, it will get the only possible way out of the economic crisis: that is to say, the pipeline will pass via Armenia, and thus, with the revenues generated from the oil transit, Armenia will have the possibility to meet the external debts.

### The real issue is stability

But the real question is not oil, but the destabilization of the region, and not only of the Transcaucasus countries, but probably, which is very important, also Russia and Iran. For the first time in history, it is proposed to bring NATO troops into the territory of the former Soviet Union (into Nagorno-Karabakh), and to have them take up positions near the northern border of Iran and the southern border of Russia. Here it is worth mentioning that Iran and Russia are arguing about the Azerbaijani possession of Caspian oil—the oil reserves are in that part of the Caspian Sea which is considered for general use, according to the agreement between Iran and the U.S.S.R.

Thus, the question of oil possession can become a serious means of destabilization. By beginning a war, or in the case that enslaving conditions are dictated by the OSCE and the UN, the export of oil will become more unreal, because all the routes to the West will pass through territories where Armenians live—and history shows that the Armenian nation has borne many avengers, as, for example, after the genocide of Armenians in 1915, their true revenge continues till today.

The creation of a new center of tension in the region is explained by the oil interests, which becomes more absurd when we speak about small reserves of Caspian oil, and particularly in such part of the world, where there exist the Russian reserves in the north, and boundless Persian and Arabian reserves in the south.

Is there any alternative to so-called "oil development"? Yes, it is the economic integration of the countries of the region, restoration of the Silk Road, and building of the Eurasian economic bridge. Armenia is at the crossroads of the axes of north-south (Moscow, Yerevan, Teheran, and the Arab world) and east-west (Europe, Africa, and China and Asia), round which can be created effective, large-scale economic development, which will be on the basis, not of the enslaving credits of the IMF, but on the basis of healthy, physical economics. I must inform you, that our organization, together with the Schiller Institute, intends to organize an international conference on the above-mentioned theme, in April 1998, in Yerevan.