

THE CENTRAL GOVERNMENT AND INTEREST GROUPS : LABOR REFORM IN POST-MAO CHINA (1978-1995)

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Why is it that the central government has been unable to bring about the society-wide development of a labor market? In the paper, it is found that despite labor reforms of 1978 to 1995, due to the interests and actions of local governments, workers and managers, the central government has not successfully formulated and implemented employment reforms. One important limit to the autonomy of the central government is the fear of negative reactions of workers.

1. INTRODUCTION

To interpret the process and outcomes of labor reforms in a state-centered perspective, the paper will suggest research questions: What are responses of local governments and interest groups to labor reforms initiated by the central government? Why is it that the central government has been unable to bring about the society-wide development of a labor market?

To understand the influence of interest groups and local governments on labor reforms, the concept of state autonomy (Evans, Rueschemeyer and Skocpol, 1985) will be addressed and specified for a reforming communist context. The state autonomy, i.e., the abilities of states to adopt policies not reflective of social groups, can be adapted. The autonomy of the central government to adopt policies not reflective of the interests of local governments, managers and workers, is critical for the paper. In place of state capacity, the capacity of the central government is also important for analyzing the state and society in reforming communist system.

The main hypothesis is that despite labor reforms of 1978 to 1995, due to the interests and actions of local governments, workers and managers, the central government has not successfully formulated and implemented employment reforms. In other words, due to the limited autonomy of the central government, the labor reforms themselves have not brought about a radical change of the employment system in state enterprises.

As social groups, state workers and managers participated in the labor reforms of state enterprises that had been initiated by the central reform leadership. Labor reforms increased the divergent interests between management and workers in state enterprises, more than before reforms.

As segments of the government, local governments and their labor officials also participated in the central government's labor reforms. They formulated and implemented labor reform policies independently.

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If workers and managers do not support labor reforms, labor reforms can not succeed. The same goes for local governments. All of the participants' positive attitudes toward reforms, and coordination of their actions in the process of labor reforms, are critical to the success of labor reforms. Labor reforms have an immediate influence on important interests of workers, managers and local governments, and more generally on social stability. While the central government seeks to make labor reforms consistent with its view of the interests of society as a whole, labor reforms, to a different extent, will have unparalleled, positive, or negative influence on the interest groups of the society. It is extremely unlikely that radical reform would advance the interests of all the concerned groups at the same pace. The emergence and activities of interest groups are another factor blocking and/or shaping labor reforms. In fact, some local governments, state managers, and state workers may not have supported reformers in the central government and the labor contract system. Therefore, the questions become how coherent the central government is, how autonomous the central government is from different interest groups, and how great a capacity it has to implement policies, if necessary, against the resistance of different interest groups.

2. LOCAL GOVERNMENTS

Various factors enhance or inhibit the autonomy of the central government. The alliance of the central government with some provincial governments and industries, can enhance the autonomy of the central government.

For example (Shirk, 1985), prior to the 1978 reforms, certain industrial sectors, regions, and bureaucratic organizations were not only favored but also protected and subsidized by Chinese economic policies. These groups, which might be termed the "Communist coalition," were heavy industries (especially basic metals and machine building), the inland provinces, and the planning agencies and industrial ministries of the central government (197). Heavy industry was politically strong. The primary position of heavy industry is also noted when comparing national wage scales. Workers in heavy industry were paid more than workers in light industry. In addition, the managers of major heavy industry plants, such as the Anshan and Wuhan Iron and Steel Companies, had a higher cadre rank than some provincial governors. The taxes and profits of heavy industries provided the lion's share of the central government's fiscal base; this also increased the political clout of such industries (Shirk, 1985: 208). Relaying the command economy, shifting investment priorities, and opening the door to international business, have had an impact on the above-mentioned special interest groups - heavy industry, inland provinces, and central bureaucracies - which had been favored before 1978 (Shirk, 1985: 198-9).

In the post-Mao era, the reform coalition may be light industry, coastal provinces, local officials, and reforming factions of the central government. The reform coalition may enhance the autonomy of the central reform leadership initiating reforms.

Deng Xiaoping at the head of the reform faction, while trying to outflank the conservative faction, directly sought and obtained the support of Guangdong, Shenzhen,

and Shanghai officials, which in turn strengthened both Deng's position and that of the provincial officials (Hook, 1996: 61).

For example, Guangdong province, which has been interested in pushing reforms, is one of the coastal provinces. In 1988, Guangdong province tried to liberalize even more, requesting the central government to reduce state control over the economy to guidance only. That request, which was coupled with the arguments between the reformist faction and the conservative faction in the central government, remained unresolved during the brief period before the Tiananmen Incident. Li Peng and Yao Yilin, the conservative leaders, wanted the economic growth rate slowed to about 6 percent. Zhao Ziyang, a reforming political leader in the central government, was one of the strongest allies of Guangdong province. However, after the Tiananmen Incident, he was purged. This gave the conservatives a temporary victory in slowing growth, requiring Guangdong province to reduce investment and to subject itself to greater macroeconomic control from the central government.

The reformists, led by Deng Xiaoping, returned to the fight in 1992, pushing an increase of reforms with a targeted growth of 10 percent at minimum. It was not by accident that Guangdong province was chosen to promote Deng's policies. He visited Guangdong in January 1992, saw its booming towns and Special Economic Zones, and praised it as a model for all of China. In spring of 1992, in the National People's Congress, Deng overcame the opposition, which gave the Guangdong provincial government a high degree of economic autonomy and prepared it for much faster growth. In turn, the Guangdong authorities actively supported Deng's policy of rapid economic growth. In March 1992, Zhu Senlin, the Guangdong Provincial governor, gave two major policy speeches praising the pace of Deng's economic reform (Hook, 1996: 38-9). At the central level, the support of the Guangdong provincial government enhanced the autonomy of the reform faction from the conservative faction and conservative enterprise managers.

Competition among local governments and among enterprises also enhances the autonomy of the central government. Such competition (Shirk, 1985) has increased due to increasing economic opportunities, which has also intensified the difficulty of forming political alliances among enterprises and localities (197). Competition among and between localities, bureaucratic organizations, and enterprises has increased due to reforms. Decentralizing profit-retention and decision-making authority gives both local political units and enterprises, the incentive and ability to put forward their own organizational business interests. Since higher profits and tax revenues are now involved, different levels and organizations within the government have increased their feelings of "ownership" of enterprises, which have increased competition between units. Economic competition between local government units tends to facilitate the breakup of manufacturing markets since each local government tries to employ blockades and various other "administrative methods" in order to protect its own factories from outside competition. The only true nationwide competition exists in foreign trade and investment, in which each municipality or province is trying to attract investment or increase export sales through lower prices and better goods for foreign businesses. In domestic business, there is almost no real economic competition among

provinces and municipalities. Local politicians instead put most of their effort into keeping ownership of their enterprises, protecting local markets, and negotiating better profits and rates of foreign exchange with higher levels of government (Shirk, 1985: 203-4).

Conflicts between the central and local governments, and between the central government and various enterprises, weaken the autonomy of the central government.

During Mao's time, decision-making was often very personalized; in other words, Mao himself authorized or formulated major shifts in policy. Local interests were checked by campaigns and purges. Throughout this era, the political center could usually command the obedience from the provinces (Sutter, 1995: 8). While reform speeds up and different interests of various sectors are readjusted, some localities are more interested and active in local, immediate interests at the expense of national and long-term interests of the central government. This sort of parochialism leads to intentional, frequent violation of orders, bans, and discipline initiated by the central government. To take unfair advantage of various enterprises, some localities often misinterpret laws and decrees promulgated by the central government (Zhang and Liu, 1995: 45). According to President Jiang Zemin (1995),

Even phenomena of localities taking countermeasures to state policies and not obeying orders or observing prohibitions have emerged. What should be centralized by the central authorities is not sufficiently centralized, and the phenomenon of overdecentralization (*guo yu fen san*) in some aspects has emerged (35).

The central government lacked the determination and the authority to push reform. Reform was not "carried out in an all-round, orderly, and systematic way from top to bottom, without leaving any dead angles or attending to one thing and losing sight of another" (Han, 1995: 34).

Within macroeconomic management, the central government lacks a mechanism for correctly guiding and controlling the behavior of local governments; this is also an important reason for the intensification of local barriers (FBIS, 1990: 42). For example, in September 1995, central and local officials who controlled China's economic affairs compromised to achieve a deal crucial to the restructuring of the ailing state sector. This reform, approved by the ruling Communist Party's elite Central Committee, caused China's central ministries to relinquish their traditional power in administering thousands of state enterprises. The State Council itself was directed to operate and administer, as owners, 1,000 large state enterprises. All other 100,000 state enterprises were controlled by local governments. Central decision-makers and regional leaders reached a compromise and agreed on the package in September 1995, at the Fifth Plenum of the 14th Communist Party. Although the central government agreed to a bold restructuring of the state sector as far back as 1993, the implementation of this plan was delayed by political problems - mainly the struggle for power between the central government and local governments. These struggles were over which areas of governments were responsible for those enterprises losing money. Until recently, state enterprises were divided into two categories: centrally-run state enterprises and those

under local control. Provincial, municipal, prefecture, and county governments owned and administered state enterprises. The disagreements between the central ministries and local governments concerning the control of state enterprises created excessive red tape and obstacles to the restructuring of the state sector (Huang, 1995: 41).

Another important example of conflicts between the central and local governments is that the central and local governments competed for a larger share of financial resources. The revenue of the central government was composed of taxes and profits; since 1985, most of the revenue has come from tax revenue. Stated another way (Rana et al., 1996), taxes replaced profit remittances as the main revenue-collection mechanism for the government by the mid-1980s (120). The tax collection system, therefore, was one important indicator of the strength of the central and local governments. If the central government collects a larger share of taxes, the autonomy and capacity of the central government would be strengthened while the autonomy and capacity of local governments would be weakened. Sometimes, an effective tax collection system can enhance the autonomy and capacity of both the central government and local governments.

Along with economic reform, other political and economic factors may limit the autonomy and capacity of the central government while enhancing the autonomy and capacity of local governments. For example (Sutter, 1995: 10-1), provincial authorities have been authorized greater control over personnel appointments in their own areas; greater authority to approve imports, exports, and foreign investment projects; greater access to tax revenues and to profits of state enterprises; and greater power over domestic investment decisions. Provincial leaders, who can always look to the center when lobbying for policy changes and resource allocation, are increasingly seen as able to avoid making decisions on policies with which they disagree. The power of provincial leaders also shows their growing strength in the central elite. At least six provincial and municipal leaders (from Tibet, Shanghai, Beijing, Shandong, Guangdong, and Tianjin) were made members of the Politburo at the 1992 14th Party Congress - the largest such increase since the Cultural Revolution. At the same time, the percentage of central committee members from local regions increased from 25 percent at the 13th Congress to more than 60 percent at the 14th Congress. The recent decentralization of political power has been less than orderly and has posed serious difficulties to Beijing leaders who were trying to cool down China's presently overheated economy.

However, there still exist political, economic and ideological factors that enhance the autonomy and capacity of the central government. For example (Sutter, 1995: 10-1), the central government still controls those economic resources critical to the success of most of the country's provinces and retains allocation authority. The Party's central personnel apparatus still appoints top officials at the provincial level, and the central leaders retain control of the People's Liberation Army (PLA) and the Public Security apparatus. The economic system is more highly integrated nationally than ever before, and the popular ideas of nationalism are never far from the surface in China.

These factors also affect the autonomy of the central government in labor reform policies. Decentralized decision-making also provides local governments and their

officials more say in labor reforms. Local governments are much freer to adopt labor reform policies which can be changed and implemented in accordance with different and changing local interests.

On the other hand, some provinces such as Guangdong went ahead with labor market reforms before the central government proceeded to do so. More generally, some local and regional governments may have strong incentives to support either open or covert privatization, and the change in labor relations that goes with it.

After 1986, the responses of local governments to the labor contract policy varied widely, with certain provinces and cities (such as Guangzhou) making progress. The nature of local political leadership and the dynamics of local economic growth are two important factors generating this (White, 1987: 388; White, 1993). In fact, there existed a good deal of this resistance to labor reform coming from officials in local labor bureaus (White 1988 in White 1993: 142). Officials in local labor bureaus were obviously reticent to delegate anything other than minor powers to enterprises (White, 1993: 142-3).

In the 1980s, the entire government had competing objectives - higher labor productivity and more employment (White, 1987). Generally, in comparison with the central government, local governments and their labor officials tended to emphasize employment more than labor productivity (White, 1987: 388). In China, there are "the continued problems of urban surplus labor, the looming menace of rural-urban labor migration and the consequent fear of unemployment among urban dwellers." These factors led local labor officials to emphasize the increase of employment more than the increase of labor mobility and labor productivity (White, 1987a: 123). Moreover, local labor bureaus were forcing state enterprises to employ more workers than they actually required (White, 1987: 123). Local governments and their officials were more directly responsible for the social and political fallout of unemployment and social unrest. For example, an official from the Ministry of Labor also said that "local governments have stressed employment as a major factor in maintaining social stability" (*Xinhua*, 1990). Sometimes the top-down control of the Ministry of Labor over local labor bureaus does not work. Local labor bureaus may not obey the orders of the Ministry of Labor at the central level. The chain of command, which is supposed to disseminate orders to lower levels, is insufficient. For example, a Hong Kong-based medium (Nickerson, 1995: 57) shows these points. Whether or not the efforts of the Ministry of Labor are very strong, its capacity to ensure various labor bureaus' compliance with regulations and laws of the central government may be limited. According to the Director of the ILO (International Labor Organization) in China, Jean-Victor Gruat (Nickerson, 1995),

Decision-making power is highly centralized and does not reach the local levels. There's no chain of command between the Ministry of Labor and local labor authorities. (58)

One of the reasons for this is that local labor and personnel bureau directors (Casati, 1991) are appointed by provincial, city and county governments in coordination with

their associated party committees (16). The Ministry of Labor does not appoint local labor bureau directors.

In conclusion, local governments are administering their own labor policies. As economic actors, local governments are also managing their own local enterprises. The labor policies of local governments may coincide with those of the central government; at other times, they may contradict each other. However, like the central government, local governments need the autonomy and capacity to implement successful labor policies in their own areas. Provincial governments must have organizational and ideological unity. For labor policies to be successful in local areas, provincial governments must get support from lower levels of government (such as county and township governments) and local enterprise managers and workers. Provincial governments must achieve supporting reforms, such as social security and housing reforms. As the autonomy of the central government relates to the world system, so the autonomy of local governments relates to the central government. This is also important. Since economic reform, the previous limitations on local government autonomy by the central government have been increasingly removed. As a result, the autonomy of local governments can enhance or weaken the autonomy of the central government.

3. MANAGERS

In the Soviet Union, reforms, especially labor reforms in the era of Gorbachev, did not affect the power balance among labor, management, and government administrators. Though the government tried to reform labor relations, it did not radically change power relations among labor, management, and government administrators. In the era of Gorbachev, labor reform policies did not create sufficient incentives or pressures to induce managers to cut deeply into their labor force. One reason is that, though pressures for profitability increased in the era of Gorbachev, the soft budget mechanism was still strong enough to maintain a strong managerial propensity to hoard productive labor (Cook, 1993). State enterprises had many superfluous or "on-the-job unemployed" workers. Factory directors (Shi and Xiao, 1988) often complained about overstaffing and low work efficiency (37). Since the late 1980s, the central government has sped up the transfer of management power to employers (Li, 1992: 27). A central government document on labor system reform recently gave enterprises the power to fire workers. In other words, if they want to maximize profits, managers can fire surplus labor. Also, under the total wage system introduced in 1985, managers may not want to increase the number of workers. But up to 1988, not many have done so (*Xinhua*, 1988: 34; Wang and Li, 1988b: 31).

(Case) Although statistics from Harbin, the capital of Heilongjiang Province, listed 100,000 underemployed and unqualified workers in the city, in the end only 10 workers were dismissed (*Xinhua*, 1988: 34). Responsible persons of enterprises fear that these workers, if dismissed, would kick up a row or even seek revenge.

The result is that they have more workers than needed and economic efficiency is lowered (Wang and Li, 1988b: 31).

State enterprise managers were reluctant to reform the labor system for complex reasons, though age, background, and orientation of managers, and differences between firms in terms of scale, capital intensity, nature of the production process and skill requirements of labor may affect managerial reactions to the labor contract system (White, 1987: 381-2).

Managers and workers in joint ventures think of firing as a reasonable alternative. In an interview (July, 1993) with Dong Fureng, he said that "attitudes towards employment in joint ventures are less problematic. Jobs in such enterprises are very much in demand. Hirings are selective and firings are less disputed. Dismissals are even thought reasonable" (Warner, 1995: 79).

However, state enterprise managers worry about the reaction of fired workers. According to *Xinhua* (1988a), state managers were "taking a wait-and-see attitude."

[Many plant directors] have mixed feelings about labor system reform. They know they must reform the system: There will be no solution to the problem of overstaffing and low efficiency without the necessary reform, but they do not know how to deal with workers, who pester and harass them after being made redundant through streamlining, or how to cope with resulting interruptions in production and unfulfilled contract targets. In a word, plant directors want to avoid trouble. Some of them would rather be dismissed from their posts than try to reform the labor system (34).

Although a factory director may have the right to fire workers, because workers are ideologically conservative, he will receive objections from various groups, and even be retaliated against for firing a worker (Wang and Li, 1988: 45). The following extreme case will illustrate the point.

(Case) When the Beijing Washing Machine General Plant cut down its organization, quite a few people lost their jobs. Later, the plant director received an anonymous telephone call, asking him: "Don't you want to leave yourself a way out?" (*Xinhua*, 1987: 32).

Some managers have had to sacrifice management efficiency due to group pressure (Du, 1993: 26).

(Case) A woman director of Beijing's No. 4 Pharmaceutical Plant, said that "we have too many "fears" on our way to advancement. We fear those who pester, make trouble, or goof. In many instances, we concede to troublemakers, even though we are right. We worry about the rise in unemployment. We worry that someone might not have enough to eat. We worry whether our practice conforms to socialism, and so on (*Xinhua*, 1987: 32).

(Case) According to deputy director of Beijing's Dongfeng Television Set Factory Xu Fugeng, the most direct "rebuttal" to the reform of the labor system came, first of all, from these workers who lost their immediate interests. He felt that such a radical reform would inevitably encounter willful troublemakers who use soft tactics to persistently create trouble (*Xinhua*, 1987: 32).

Contract workers are young, and the labor cost of young workers is low; in addition, they are productive and skilled. Managers do not want to fire young contract workers and would prefer to fire older workers because of their low skills and high labor costs. Managers want to restructure wage and skill levels. It is, however, too difficult to fire older workers. Under the all workers' contract system (*quanyuan laodong hetongzhi*), older workers should sign contracts. If there are justifiable reasons to fire older workers, they may be fired. Under the all workers' contract system, managers have more authority than they had previously, but they still find difficulty firing older workers. "Old and unskilled" is not reason enough for firing these workers.

Sometimes, enterprise managers show other responses in place of firing workers.

(Case) Tianjin City's "Jinjing Glass Shell Factory" has established an employment awaiting mechanism and trial-implemented a system under which "workers can be removed from their work posts and ordered to await employment within the factory." Thus, those who seriously violate discipline, are sluggish, or are unable to cope with their work have been removed from their work posts and ordered to await employment within the factory. During the period of their awaiting employment, these workers are not entitled to bonuses and can only receive 60 percent of their wages. After they have rectified their understanding, improved their technical skills, and applied to return to their posts, these workers will first be asked to "try work." If they prove to be competent during the "trial" period, they will be allowed to return to their work posts. Over the past four years, the factory has removed more than 100 workers from their work posts and ordered them to await employment within the factory. So far, 64 of these workers have returned to their work posts. As a result, the factory has witnessed a steady increase in its economic results for four consecutive years. The small Jinjing Glass Shell Factory tries to resolve the problem of "dividing rice for three people among five people" and "five people being unable to do three people's "work" after eating their rice" (Fang et al., 1991: 54).

(Case) The factory removed professionally unqualified workers from their posts and paid them 70 percent of their former wages. Some workers complained that reform should not break their "rice bowl," or leave them unemployed, thinking that a socialist country should guarantee that everyone has a job. The factory, however, did not turn them off altogether. It offered various training programs for them in the light of their professional qualities, and encouraged them to find new ways to contribute to the factory's economic returns. For example, Jiang Yanping, a young female worker of the factory, was removed from her former position in the managing office. But after receiving training for three months, she was later

enrolled in the marketing office and won factory awards for outstanding contributions (*Xinhua*, 1992: 34).

These two cases show that in place of firing workers, managers can transfer workers to new positions (*ligang*). In summary, a worker can be transferred to another position in the same company or can be induced to take a leave of absence instead of being fired. He can get a basic wage, which consists of approximately 70% of his total wage. It is easier than having to fire him for the following reasons. First, by this method, the worker can get health insurance. Second, large enterprises can not solve housing problems by firing workers because even after being firing, the workers still receive housing benefits. Since labor reforms, the word *ligang* has been coined. *Ligang* has two meanings. The first meaning is "losing jobs," which means that workers are forced to leave jobs. The second meaning is "leaving jobs." These two cases show the second meaning of *ligang*. In other aspects, *ligang* indicates that workers in units cannot leave before reform but that since labor reform, he has the freedom to choose his job.

Why did state managers have difficulty firing workers? Upon closer inspection, state managers seem not to have a real right to hire and fire workers. For reformers, it might mean that a precondition for a labor market and the real right to fire workers is the clarification of property rights. For radical reformers, the precondition may be the privatization of state enterprises. In capitalist countries, managers may be thought of as owners or as agents of capitalists; therefore, managers have the actual right to recruit and fire workers. However, Chinese managers have no ownership rights. The right to fire workers is the authority of enterprises' superior governments. While managers are supposed to have the right to fire workers, they are not protected from the results of their actions - which may backfire; that is, managers can easily be hurt by their firing decisions. At the same time, managers usually do not benefit from layoffs or firings. As the representative of the government in managing enterprises, managers have the responsibility to run good enterprises; however, they are not well qualified to do so either legally or practically. They are not well protected from any possible revenge from fired workers. Little benefit is seen in firing unqualified, superfluous workers. Actually, they can be injured, both physically and morally. Managers will consider what benefit can be derived from enforcing strict firing action and how badly such a decision may hurt them. It is not difficult to see that a wise option is to retain unqualified and superfluous employees rather than to fire them.

Also, managers did not have the ideological foundation for the right to fire and hire workers. Central public media (*Xinhua*, 1988b) have always maintained that, ideologically under the socialist system, a worker is both the master and the employee. Theoretically, it seems only natural that the country, as the employer, can fire its employees (50). In the Chinese context, though the government seemed to have given state enterprises and their managers more autonomy in place of effective ownership reforms, it seemed not to have created effective conditions for giving managers the real right to fire workers. As to an ideological foundation, managers are not the owners of the property; on the other hand, those workers to be fired do have some legitimacy as part owners of enterprises.

Other factors are at work as well. The first is that state managers are not only the managers of economic enterprises, but they are also the leaders of the work units with social, political, and welfare functions. According to Walder (1989), state managers are responsible for not only state workers' incomes, but also for delivering a wide range of other benefits and services to their employees in work units (249-53). The managers' role has changed from that of disciplined agents of the party and government organs to that of representing the interests of their employees (Walder, 1991: 474). A 1985 survey of 900 enterprises showed that only 8 percent of workers believed that enterprise managers represented the interests of the government; 80 percent believed that the managers represented the interests of the factory or its workers (Yang et al., 1987:83). There also existed the "social contract" between managers and workers, in which workers' co-operation was traded for management assurance of security and welfare (White, 1993: 143).

The second reason is that the continued existence of what the Hungarian economist Kornai has labeled "soft budget constraints" reduced the motivation of enterprise managers to trim their labor force. The logic of "soft budget constraints" continued because the government had only a weak capacity to "carry through a program of restructuring that would tie financial accountability to enterprise productivity" (Wilson, 1990: 50).

The third reason is that other institutions such as a housing market, national unemployment insurance, and labor market service institutions have not been developed. That there was no substitute for the major functions of the work unit system has shaped managers' negative attitudes toward the labor contract system. State managers are stuck with redundant employees because the insufficient social insurance system makes it difficult to terminate employees. Central media (Zhang, 1995: 15) describe such complaints from some managers.

4. WORKERS

Under reforming communism, state enterprise workers have "ambivalent" attitudes toward economic reform. Although they may enjoy more personal choices and economic opportunities in a mixed economy, they also have an abiding interest in secure jobs and benefits. Such security may come under attack if competitive markets impose hard budget constraints on enterprises, and in turn permit the possibility of bankruptcy and job layoffs, which are viewed as really threatening workers' livelihoods (Stark and Nee, 1989: 19). In the reforming process of China, the likely first loser would be the interest groups of the state sector. The ideological predominance of these interest groups, as well as the importance of their urban location for large enterprises, can keep their interests from being forgotten or passed over. This is one of the biggest difficulties China will face in reform (Han, 1995: 35).

As the economy goes through developmental changes, various interest groups in enterprises arise primarily due to differences in interests due to age (seniority), position, skill, education, and sex. A natural difference in interests between new and

old workers exists, which is also influenced by seniority. Such differences between various interest groups, in practice, are seen as contradictions between the long - and short-term interests of workers, as well as between the overall interests of enterprises and the individual interests of workers. These differences have created conflicts of interest between various groups of workers in enterprises (cf. Du, 1993: 26).

First, the contract system is more readily accepted by the young, while it is not as easily embraced by the middle-aged, the older, or the weaker workers (cf. *CD*, 1992a; Wang, 1993: 51).

(Case) The Wuhan Iron and Steel Works, one of the country's largest state-run steel producers, has cut its work force by more than 40 percent in a bid to enhance efficiency.... There have been quite a lot of complaints, mainly from the old and the weak (Gao, 1993: 65).

(Case) Wang Hongzheng, a 24-year-old saleswoman from Nanchang Department Store in Jiangxi Province, said that the new employment system may provide fair opportunities (*CD*, 1992a).

Second, the contract system has disadvantaged women more than men (Wang, 1993: 51). It has been especially difficult for women over 40 to retain their jobs (Cao, 1993: 45).

(Case) Since the introduction of the labor contract system in October 1991, at the No.10 Printing and Dyeing Mill in Shanghai, 202 of 1,330 workers have lost their jobs or been moved to other positions in the mill. Over half of the "unlucky" persons are women (*CD*, 1992a).

(Case) A survey conducted by the Women's Department of Shanghai Trade Union, discovered some negative reaction to the labor contract system. Many middle-aged women deemed themselves victims of the contract system, adding that the reform of the employment system should have made them feel more secure. They equated the contract system with the reduction of workers (*CD*, 1992a).

(Case) The No.10 Printing and Dyeing Mill in Shanghai is one of 13 pilot large- and middle-sized enterprises introducing the new contract system.... These women in their 40s (who have lost their jobs or been moved to other positions in the mill) complained that they found it hard to compete with younger rivals because of poor health. Most of them were employed in the 1960s. "We have devoted our youth to our factories," they said. "But now we are considered incapable" (*CD*, 1992a).

(Case) Complaints were heard in other cities which have started the labor contract system, China Women's News reported. Yu Zhengzhu, a former model worker in her late 40s from the Wuhan Sewing Machine Factory, said she now feels a bit incapable of doing what she wants to do. "I always worked overtime when I

was young," Yu was quoted by the newspaper. "I feel depressed and think it's unfair to have to compete with young workers from the same starting line" (CD, 1992a).

(Case) Many workers appear unhappy with the reforms. "Reform should give people a sense of security, otherwise it won't have the support of the majority of workers," one woman worker in Shanghai was quoted as saying by the *CHINA WOMEN'S NEWS*. It said a majority of women employees at state-owned factories in Shanghai, China's industrial center, had similar feelings (AFP, 1992).

Third, workers whose skill are in demand have more of an advantage than those who are unskilled or whose skills are not in demand. For example, skilled workers, who are in demand, are sometimes offered permanent jobs as an inducement to accept employment (Li, 1991: 42).

White regards the relationship between the Chinese government and its industrial workers in state enterprises as a kind of institutionalized patron-client relationship. The government takes on the role of provider, and workers come to depend on the government and to expect its bounty (1993: 143; 1987a). State workers exist as "a kind of blue-collar aristocracy" (*FEER*, 19 Jan. 1989), privileged workers with far superior pay and welfare when compared to workers in urban collective enterprise. According to Liu Zhifeng (1993), vice-minister of the State Commission for Restructuring the Economy, workers' incomes currently consist not only of wages, bonuses, and other cash income, but also of other benefits and bonuses in kind. The latter have been known to actually exceed their wage income. Because of this wage imbalance, many state workers refuse to transfer to other enterprises, fearing an income loss of benefits and bonuses in kind which may be as much as fifty percent of their total income (36). Many cases show that there are situations in which workers are fed up with their jobs but refuse to move on because their cradle-to-grave needs are provided for, and moving into the private sector would eliminate these benefits (Peng, 1994: 27).

(Case) Dong Guang, a foreign office protocol director, has for some time been toying with the idea of leaving his job and joining burgeoning private sector. Valuing his extensive *guanxi* (connections), a private trading company is willing to offer 10 times his salary of around 800 yuan to be a department head. The job, however, does not offer many of the perks and benefits he now enjoys. Although a career in the trading company offers attractive monetary rewards and exciting challenges in the long-term, practical considerations finally force him to stay put. "The money and the prospects are good. But, unfortunately, the job does not come with housing or medical and welfare benefits. If I have to pay for all these expenses out of my pay packet, I will be worse off.... My current job is not exciting; often it is boring. The good thing about it is it takes care of accommodation and medical benefits for me and my family" (Peng, 1994: 27).

Those who were born during the Cultural Revolution (1966 to early 1970), who witnessed a baby boom, and who form a large portion of the population, have now grown into workers who are ready to enter the job market (Fang et al., 1991: 48). Moreover, following the transfer to rural market economies, there already exist 170 million surplus workers out of the 438 million workers in the rural areas. If or when these unemployed workers leave the countryside and move to urban areas, they will become jobless. Recently, the flood of rural workers to urban areas has grown by 10 million per year. Such rural workers have taken jobs wanted by urban laborers, having a major influence on the social order for those seeking work (Zhang, 1994: 8). If the enormous rural surplus population floods the urban labor market, they will compete with state workers seeking new jobs (Davis, 1990: 107-8). This factor could also force state workers not to accept change.

The goals of the labor contract system do not contradict the interests of state workers who want to leave their jobs. Even though they give up their welfare, housing, and other benefits given by their state enterprises, some workers intend to leave their jobs.

(Case) Shen Zhi, the former chief of the Shanghai Municipal Labor Bureau, who had just retired, said:.... Compared with other parts of the country, Shanghai is not facing very great pressure regarding employment.... Of the job seekers in Shanghai, the number of newly employed labor force is decreasing yearly, while the number of those who quit their former jobs and are seeking new jobs is increasing. At present, of the 77,000 job seekers, more than 40,000 fall in this latter category. A further analysis shows that, of these more than 40,000 job seekers, 19,000 people are former contract workers who have terminated their employment contracts, 10,900 people are former contract workers who have resigned, and 4,100 people are former contract workers who have been dismissed by or separated from their original units. A point that should be noted here is that the 10,900 job seekers mentioned above only comprise those who have resigned and have not yet found new jobs. The actual number of people who resigned from the former posts in Shanghai should be much higher than 10,900. There are various reasons for resignation. Some hope to work in a new environment, some complain that their present jobs do not offer them the opportunity to give full play to their talent, but most resignations are based on other considerations. We have conducted a survey and have found that about 42 percent of those who resign are planning to go abroad, 34 percent want to work as individual households, and 11 percent want to work with enterprises run with foreign capital, Overseas Chinese capital, or with both Chinese and foreign capital. These three groups of people alone account for about 86 percent of those who resign. As their dreams have not come true, they become jobless (Fang et al., 1991: 49).

However, many workers want to keep their jobs at state enterprises. If they are unemployed, they will complain of the situation, or show negative responses. Many cases show such responses.

(Case) "This is simply an insult to human dignity. How can I face other people in the future?" "I have contributed most of my life to this factory. Now I have been fired. This is too merciless!" Since the enterprises are recognizing and improving their labor setup, some workers are unnecessary. They are heavyhearted and experiencing complicated feelings. Some of them said sadly: "A man would never shed tears easily unless he is unnecessary" (Jiang, 1988: 37).

(Case) After a recent visit to some unemployed workers in six provinces and cities, including Shangdong, Hunan, and Shanghai, we have the impression that Chinese workers, most of whom are not at all prepared for the sudden loss of their jobs, are greatly shocked and affected by unemployment (Shi and Xiao, 1988: 37).

(Case) "This was an unexpected blow," an unemployed worker told the reporters. "We never expected that reform would break our own rice bowls!" (Shi and Xiao, 1988: 37).

(Case) After visiting many unemployed workers we found that although most of them are still able to support their families and still have food and clothing, they feel very pained after losing their jobs. They feel pained because the most sacred concept of the past decades has been smashed all of a sudden and they are unable to straighten out their thinking (Shi and Xiao, 1988: 37).

(Case) "Unemployment is a special outcome of the capitalist system. Why should it happen in our socialist country?" a young jobless worker in Qingdao questioned the plant director justly and forcefully after finding the "theoretical basis" from Marx's works (Shi and Xiao, 1988: 37).

(Case) An old worker in Yichang, Hubei Province, who often gives reports to young workers advising them to recall past sufferings and think over the source of present happiness, asked: "From the very beginning of the revolution, the Communist Party promises that 'all people will have things to eat and jobs to do.' Why should it go back on its word now?" (Shi and Xiao, 1988: 37).

(Case) In Qingdao, a retired worker, an old man, looking unhappy and depressed, was drinking wine when we entered his house. His son was dismissed from a factory half a year ago. Now his son is all right after being vexed for a period of time, but the old man was quite another matter. His wife complained, "he was very happy some time ago, growing flowers, keeping pet birds, and humming old tunes. But since his son became jobless, he has changed a great deal, striking tables and chairs all day long and getting drunk and scolding others." The old man said angrily: "I am angry. I am worried to death, not only for the sake of my child, but also for the sake of our country. Did we not say that socialism is superior? Why has it become the same as the old society?" (Shi and Xiao, 1988: 37).

(Case) A woman worker, who had been dismissed by a textile mill in Shanghai, was suffering from leukemia. But if she wanted to be hospitalized, she had to pay 5,000 yuan in advance. Unable to afford this, she could only stay at home, letting her health deteriorate day by day. But who should take care of this matter? The factory where she once worked said that according to regulations, it was not its business because she no longer had any relation with the factory since she became unemployed. The labor insurance department said that she was not in the category of people entitled to receive relief funds because she was not fired nor did she leave the factory due to the termination of her contract. The civil administration organ refused to handle the case because she was not an orphan, nor widowed, nor disabled. The city federation of trade unions said that although she was a member and should be taken care of, the federation could not afford so much money. When we left Shanghai, the woman worker was still lying in bed, moaning and groaning. Many other unemployed workers were talking about her with a heavy heart: "Looking at her and thinking of ourselves, we are trembling with fear" (Shi and Xiao, 1988: 38-9).

(Case) In Beijing, a worker who was declared "temporarily unemployed" rushed into the office of his workshop, and snatched the rice bowl from the director and a pancake from the secretary of his workshop's party branch, saying: "I won't allow you to have your meals since you don't allow me to have mine!" (Zhang, 1988: 47).

(Case) In Shenyang City, an unemployed worker said to his leader everyday, saying: "I don't know what to do. I can only rely on the organization" (Zhang, 1988: 47).

(Case) Others complained that being forced to sign labor contracts rather than being guaranteed lifetime jobs, was unfair and reeked of capitalism. A worker in Wuhan said: "Even though the reform measures haven't been put into practice yet, we are already worried about it. We think that the economy cannot improve if we don't reform, but we also want stability" (AFP, 1992).

Some cases show that many state workers vehemently fight against labor rationalization schemes (*FEER*, 19 Jan. 1989).

(Case) Precisely because there are more hands than needed, many enterprises hang on to the outdated. Far from improving product quality and attaining better economic results, they can only engage in the traditional manual labor of the past. A plant in Chengdu planned to install an automatic production line but encountered worker resistance to varying degrees (Wang and Li, 1988b: 46).

(Case) In Qingdao City, some veteran workers, who had just been laid off in the process of the "rationalization of labor composition," stated that they would rather retire ahead of time than go to the labor service market. "We are the masters of our

country and we have never heard of the practice of selling masters" (Zhang, 1988: 47).

Extreme cases, such as physical attacks, injuries, or even the killing of reformers, have been noted by some state enterprises as they try to dismantle the "iron rice bowl" and the cradle-to-grave system for workers' welfare (Gao, 1993: 65).

(Case) Some people threatened to blast away the plant directors' office, some said they would kill themselves in the directors' homes, and some even threatened to kill the wives and children of the directors (Shi and Xiao, 1988: 37).

(Case) Like an infuriated lion and with a kitchen knife in hand, a young worker who had been dismissed from a rubber goods factory in Huangshi City, Hubei Province, broke into the director's office and put his knife in the latter neck, shouting: "Why should you smash my rice bowl?" "I need to work! I need to eat!" (Shi and Xiao, 1988: 37).

(Case) Some people were unable to extricate themselves from the bitterness of unemployment. After becoming "surplus personnel," a female worker in Zhuzhou, Hunan Province, felt that she could not even raise her head in front of other people, including her husband, children, and neighbors. She left her home quietly and poisoned herself. If she had not been saved by others, she would have died (Shi and Xiao, 1988: 37).

Originally, under socialism, the government negated the existence of labor disputes. Even the central media (CD, 1992; CD, 1991: 54), however, reported that collective action (i.e., labor disputes related to the labor contracts) has increased. For example, *China Daily* (CD, 1991: 54) reported that 49 percent of the total labor disputes between 1986 and 1990, were related to the labor contract system, according to statistics reported by the Ministry of Labor.

The evidence shows that workers exert considerable pressure, ranging from political (through strikes and demonstrations) to economic (through work slowdowns and non-cooperation) to personal (through threats on the life of managers, etc.). What needs to be made clearer is why this is so. In other words, the nature of industrial organization does not allow for the dismantling of political institutions which continue to provide workers channels of expression, participation, and leverage. Due to the inability to dismantle economic institutions which are simultaneously political institutions, workers continue to have organizational channels of influence. Since industrial enterprises cannot reasonably be dismantled without tremendous economic losses due to the nature of production, they continue to operate as political institutions, giving workers some leverage.

One characteristic of the government as "an area of social conflicts" has become increasingly important. At the national level, in the process of labor-related lawmaking and policymaking, the All-China Federations of Trade Unions (ACFTU) and the

Chinese Enterprise Directors' Association (CEDA) began to take a role as an interest group, even though the process was in an embryonic stage (cf. Interview 4). At the enterprise level, the division of interests between management and workers has been caused by labor reforms. Such changes have enhanced the functions of interest groups such as the ACFTU and CEDA at the national level. They will try to realize their own interests in various areas of the government. This is true in the field of labor disputes. Since the introduction of labor reform, labor disputes have increased. The role of labor dispute arbitration committees and labor dispute mediation committees has increased. Their function has been supported by labor-related laws, such as the labor law of 1995 which states that "a labor dispute arbitration committee shall be composed of representatives of the labor administrative department, representatives from the trade union at the corresponding level, and representatives of the employing unit." Within enterprises, labor dispute mediation committees shall be composed of representatives of the staff and workers, representatives of the employing unit, and representatives of the trade union within enterprises. Within enterprises and at the national level, these interest groups will realize their interests by using the institutions of the government. In fact, "since economic reform, the government has recognized enterprises and trade unions as independent subjects of interests" (Interview 4; Song, 1995). Some independent rights of trade unions have been expressed in the "Trade Union Law" (1992) and the "Labor Law" (1995). Some independent rights of enterprises have also been expressed in the "Enterprise Law." The CEDA and Trade Unions at all levels, however, function more as "quasi-governmental institutions" (Unger and Chan, 1995: 34) than as independent interest groups. According to the interviewee (4),

Originally, the CEDA was subordinate to the State Economy Commission in the central government. It originated from an academic meeting of entrepreneurs. The name of the State Economy Commission had been changed into the State Economy and Trade Commission to which the CEDA is subordinate. It is composed of entrepreneurs, such as directors of state enterprises and private enterprises. They exchanged their experiences with each other. Though it is subordinate to the government, it suggests non-governmental (civil) opinions to the government.

At the same time, the divergent and conflicting interests between directors and workers in state enterprises are expressed in the terminology used in the present stage of Chinese industrial relations.

Before labor reform, the phrase "labor relations" (*laodong guanxi*) had not been used. In the late 1980s, the phrase was first expressed in public documents of the government. Before reform, state enterprises and their workers were subordinate to the government. All state enterprise workers were "persons of the state." Since reform, the government has recognized state enterprises and their workers as independent subjects with their own interests. The government recognizes the existence of interest conflicts between state enterprises and their workers. In the mid-1980s, academic circles suggested the phrase *laodong guanxi*. And then, to

show the existence of their interest conflicts, the government has used the phrase. In place of the phrase *laozi guanxi* (labor-capitalist relation), to emphasize the Chinese situation, the government began to use *laodong guanxi*. Some officials in the Ministry of Labor consider even the usage of "labor-company relations" (*laoshi guanxi*) first used in Japan, and then in Korea (Interview 4).

The usage of such phrases is based on the divergent interests of labor and management.

In Japan, the phrase *laoshi guanxi* and the word "employer" (*shiyongzhe*) have been used in place of "capitalist" (*zibenjia*). The use of *laoshi guanxi* and *shiyongzhe* aim to alleviate traditional "class antagonism." In China, to describe relations between directors and workers in the state sector, generally the phrase "labor-capitalist relations" (*laozi guanxi*) has not been used because this phrase means that the government recognizes entrepreneurs as a capitalist class and workers as a working class and that state enterprises are the main sector of the Chinese economy. In public documents, the central government has not used *laozi guanxi*, but has used *laodong guanxi*.

On the other hand, the phrase *laozi guanxi* has been found in policy documents of some local governments which have SEZs (Special Economic Zones) with many foreign enterprises and private enterprises, such as Guangdong, Hainan, and Fujian. Especially in Guangdong Province, the phrase *laozi guanxi* has been clearly used. Generally, government officials admit that relations between owners and workers in foreign enterprises and private enterprises are not *laodong guanxi*, but *laozi guanxi*. In officials' views, because foreign enterprises and private enterprises are not the principal sector in the Chinese economy, the capitalist characteristics of labor relations, and the phrase *laozi guanxi* can be permitted. To describe industrial relations in Chinese-foreign joint ventures, government officials also use the phrase *laozi guanxi*. From the interviewee's (4) perspective, economically, relations between workers and managers in a Chinese stock company are *laozi guanxi*. However, government officials did not use this phrase.

5. CONCLUSION

Many workers are unwilling to leave their current jobs because what they will lose is greater than what they will gain from a new job; thus, the net loss may be too high for them to afford. They have been relying on their units for everything they need to survive. Leaving the job means leaving everything behind with no guarantees or even hope for the future. They are afraid to leave their jobs and to optimistically face the future. They are, and feel they have to be, risk-averse.

According to Labor Minister Ruan Chongwu, the labor contract system had been first "virtually abandoned in the face of stiff resistance," but since 1991 it has been "reintroduced to help breathe competition into inefficient state industry" (AFP, 1991: 21). However, the labor contract system still faces resistance from workers and managers, and even from sections of the government. Most state enterprise workers intend to stay on at their current jobs. Managers are reluctant to enforce actions to fire superfluous employees. Many government agencies cannot stand the possible social

costs of forcible layoffs and therefore hesitate to push managers too hard to enforce the labor contract system. The inertia of the traditional employment system, the ownership structure, and the non-existence of a portable social security system make it difficult to enforce the so-called efficiency-based labor contract system. Further, the results of hesitant overall enforcement were the various risks and difficulties of enforcing the contract system in the enterprises, at least during the period of 1978 to 1995.

In the process of labor reform, the government has had difficulty using the "stick." The government so far has used the approach of "carrot and no stick" (*FEER*, 19 Jan. 1989). The central government, including the top CPC leaders, has not yet developed a good system to properly handle the interests of various parties. Emphasizing social stability, they are leaving the relations among various interests untouched and staying with "gradual reform." They are reluctant to seek and create a new method of reform by destroying existing relations among various interests (cf. Han, 1995: 35). Moreover, according to Party sources (Willy, 1995), support from managers and workers of state enterprises was the most important factor in President Jiang retaining his pre-eminent position after the death of Deng (60). Before economic reforms, local governments, managers, and workers might not appear to have had different interests from the central government. Before economic reforms, they all seemed to have the universal interests of the society, even though the central government had been the most important guardian of universal interests of the country. Under the new reforms, local governments have tended to display and express more local, present, and short-term interests, while the central government has tended to stress more long-term ones, focusing on economic and social benefits. Also, managers have shown more enterprise-specific interests than have the central government and local governments. Workers have emphasized their own interests.

The theory of totalitarianism argues that social groups do not have an impact on communist governments. In reality, though all social groups have the same leverage over communist governments, it is true that social groups can strongly affect communist governments. In China, neither the autonomy nor the power resources of the central government are enough for an unambiguous conception and implementation of employment reform policies in pursuing the government's goals.

At the introductory stage (White, 1987) of the labor contract system, central policy-makers were aware of the potential opposition of state workers and other groups. Central policy-makers who wanted to place all employment on a contractual basis compromised with policy-makers who sought to preserve the permanent employment system (366). In the process of goal formulation for the labor contract system, the central government was not so autonomous from such social groups as state workers. At this stage, the limitations on the autonomy of the central government have already been shown. From the start (White, 1987), central decision-makers could not impose the new contracts on all state employees. These contracts applied neither to enterprise cadres nor to existing permanent workers - only to new workers.

Local governments, state managers, and workers recently expressed their interests during the reform period; however, even before the reform, local governments, state managers, and workers had their own interests. Prior to reform, they had not just been

expressed in public because there existed no reform which had an influence on their privileged interests. Even if labor reforms had been introduced at an earlier stage, it would have been hard for these reforms to succeed.

In conclusion, during the reform period, the central government has been unable to formulate its employment reform policies independently. The central government also has not had sufficient power resources to achieve these reforms, even against resistance from powerful partial interests of some state workers, and against the passive interests of local governments and managers.

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- Interview 2: A Labor Specialist in a University
- Interview 3: A Labor Specialist in a University
- Interview 4: A Labor Official in the Ministry of Labor

<ABBREVIATIONS USED IN BIBLIOGRAPHY>

- CBR* The China Business Review. U.S.A.
- CD* China Daily. Beijing: China.
- CQ* The China Quarterly. U.S.A.
- FBIS* Foreign Broadcasts Information Service - China. U.S.A.
- GRRB* Gongren Ribao (Workers' Daily). Beijing: China.
- RMRB* Renmin Ribao (People's Daily). Beijing: China.
- SCMP* South China Morning Post. Hong Kong.

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