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ECONOMIC INTELLIGENCE REPORT

**UNEMPLOYMENT IN COMMUNIST CHINA
1950-57**



**CIA/RR 122
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**CENTRAL INTELLIGENCE AGENCY
OFFICE OF RESEARCH AND REPORTS**

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CIA/RR 122
(ORR Project 45.1590)

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FOREWORD

This report is designed to describe conditions of unemployment in Communist China and to evaluate the official program for meeting these problems. The contradictory nature of the evidence on unemployment indicates that the Chinese Communists have neither defined the problem systematically nor collected any precise or reliable statistical data. Even though a statistical analysis of the problem is thereby precluded, this report attempts to select information on employment and industrialization which, when brought together, points up serious economic problems that eventually will have to be met by the Chinese Communists.

The effect of a rapid growth in population on the future manpower problems of Communist China has not been treated extensively in this report, because a subsequent report is planned on that subject.

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UNEMPLOYMENT IN COMMUNIST CHINA*
1950-57

Summary

Unemployment in Communist China -- which is essentially under-utilization of labor -- has been a persistent problem for the Communists since 1950 and promises to remain so through the Second Five Year Plan (1958-62). Because the total population of China is more than 600 million and is increasing at the net rate of about 15 million a year, the need for new jobs is growing at a faster pace than the expanding supply of employment opportunities. Yet the emphasis on modern industry in the first two Five Year Plans requires only small amounts of additional labor relative to the level of investment. During the Second Five Year Plan the total labor force is expected to grow at least four times as fast as the planned expansion of wage workers. Under present Chinese Communist policy, which discourages self-employment in urban areas, most of those entering the labor force will have to seek work in the rural areas, where the intensive application of labor cannot profitably be pushed much further.

Rapid socialization in the rural areas has apparently reduced employment and output in subsidiary occupations, although recent policy statements indicate a desire to reverse this trend. Up to the present, however, efforts by the Chinese Communists to relieve chronic under-employment in rural China have been only partially successful. Intensive-labor projects such as land reclamation, afforestation, and water conservancy have used large numbers of rural labor with small investment costs and are thus providing productive work for labor that might otherwise be idle. Corvée and penal labor have been used for these tasks throughout China and, in the case of corvée labor, have made relatively efficient use of redundant labor at unusually low cost.

Industrial expansion in Communist China, unlike the experience of most other countries, has not required, although it has stimulated, the movement of surplus farm labor into the cities. Even though stringent measures have been taken to prohibit this movement, enough peasants have evaded these controls to swell the urban population greatly and thereby complicate the unemployment problem in the cities.

* The estimates and conclusions contained in this report represent the best judgment of ORR as of 1 October 1957.

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Socialization of private businesses in the cities, along with restrictions on self-employment, resulted in employment cutbacks in commercial, handicraft, and service occupations. These cutbacks, combined with the infiltration of destitute peasantry into the cities, created a greater supply of labor than could be used in the expanding urban centers of China. The result has been continuous unemployment in urban areas since 1950.

In modern industry, underemployment, rather than unemployment, has been the more serious problem. In spite of the growth of new opportunities for employment in modern industry, there has been a persistent tendency to hire more workers than are justified by the available production facilities. Economic enterprises have consistently overestimated their need for labor, with the resultant overhiring boosting costs and holding down increases in productivity throughout modern industry. The government's response to these conditions has been a campaign of retrenchment aimed at reducing excessive labor in industry. The degree of this overhiring is suggested by a directive of the Ministry of Heavy Industry in 1955 ordering all enterprises under its control to cut back their personnel rolls by 15 to 20 percent. Any reductions achieved in 1955, however, were nullified by renewed hiring in 1956, when employment expanded abruptly under the stimulus of heavy investment in construction and industry. With wage costs running higher in 1956 because of the newly instituted wage reforms, the government has again insisted on more rational employment practices and has demanded that total employment be cut back in 1957 and that wages be held down or reduced wherever possible.

By emphasizing modern, large-scale, capital-intensive plants, Chinese Communist industrial planners are using the bulk of their scarce capital in investments which make relatively little use of the enormous supply of manpower. Furthermore, there is evidence that greater total output as well as higher employment could be obtained by the investment of the same amount of capital in small- and medium-size plants. It is probable that recognition of these facts has prompted the recent endorsement of subsidiary occupations in the rural areas and of new investment in smaller industrial plants for the cities. If Chinese Communist policy, however, continues to give highest priority to heavy industry, which is predominantly capital-intensive, and continues to penalize private employment and to neglect consumer goods industries, which are mainly labor-intensive, then it is doubtful that the Chinese Communists will solve the problem of unemployment.

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I. Introduction.

The term unemployment has assumed, in most Western societies, a relatively precise meaning which has little pertinence or applicability to the Chinese Communist labor force. The absence of reliable manpower statistics in Communist China and the apparent lack of any consistent standard of determining employment status make it necessary to adapt certain technical terms to fit into the unique context of China's population and manpower situation.

Although it is possible to differentiate between voluntary and involuntary unemployment, only the latter has any great significance in China. The voluntarily idle -- those who neither work nor seek work -- are generally ineligible because of age, child-rearing duties, or physical handicaps. The idle rich, or those who choose not to work, are for all practical purposes nonexistent in China today. In fact, those members of the wealthy class who remained in China after 1949 have been in most cases prohibited from seeking work. 1/^{*} Unemployment will therefore be used in this report only in the sense of involuntary unemployment. This, in turn, may logically be subdivided into several forms -- visible, seasonal, and disguised unemployment.

A. Visible Unemployment.

The most obvious form of unemployment, and consequently the easiest to define, is the condition of complete joblessness for certain workers for specific time periods. Although part of this condition may be temporary, or frictional, unemployment, most of it is of a more permanent nature, resulting from a faster rate of growth of population than of job opportunities.

B. Seasonal Unemployment.

Agriculture suffers most from seasonal unemployment because planting and harvesting are so dependent on climatic conditions. In the south of China, this situation has been relieved somewhat by double-cropping and interculture of plants, making it possible to space demands for heavy labor more evenly throughout the year. Handicraft and home industries have further served to fill the gaps in agricultural work. Handicraft work may itself be seasonal, however, depending as it so often does on locally grown raw material or on seasonal demand for products.

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C. Disguised Unemployment.

The disguised unemployed are those workers, usually in agriculture, handicraft, or service functions, who are so numerous in relation to the resources with which they work that, if some of them were withdrawn from work, the total output of their particular sector would not be diminished. 2/ Because these workers may be employed and working, at least part time, to call them disguised unemployed is somewhat misleading. Underemployment is perhaps a better term and will be used in this report as a synonym for disguised unemployment.* Underemployment generally arises wherever the existing labor force has insufficient resources with which to work. In China, this condition is most apparent in agriculture, where the shortage of arable land relative to farming population has made it difficult either to utilize manpower fully or to raise productivity. In such a situation, productivity can usually be raised only by the application of technological improvements or additional investment. Further additions of labor would only lower productivity. With a stable technology and low investment in agriculture, limits of labor intensification are reached in which the redundance of labor appears not as visible unemployment but as chronic underemployment.

II. Unemployment in the Agricultural Sector.

A. Surplus Labor in Agriculture.

A high density of farming population, severely limited resources of arable land, and the seasonal nature of the work all contribute to unemployment in Chinese agriculture. Because of the pressure of growing farm population on limited land resources, the techniques of production in China have evolved in the direction of more intensive application of labor. Although these intensive techniques have made it possible for increasing numbers of farm workers to find work on the land, this spreading of work faces a point of declining returns in which further rises in labor supply will lower

* As the reference is to an excess of workers for a particular task or job, this condition might just as logically be termed overemployment. Underemployment, however, is the more familiar term and is most common in the literature on unemployment. Hidden unemployment and partial unemployment are terms which also have been used to describe this same condition.

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productivity and per capita income with only partial compensation in increased production. At this point, new capital investment, additional land, or new methods of cultivation are necessary if production is to increase enough to use the growing labor supply profitably. Nevertheless, because farm labor is so abundant and therefore so cheap, it has generally been less costly to rely on human labor than to invest in animal labor and machinery.

The timing of labor inputs tends to vary sharply through the year as a result of the cyclical nature of agricultural production. Periods of slackness in farm work alternate with periods of peak labor demand -- notably during harvesting and sowing -- when there are often temporary and local shortages of labor. Yet even these temporary periods of relatively full employment have been marked by inefficient use of manpower resources. J.L. Buck, in his rural surveys of 1929-33, ^{3/} found that only 35 percent of his sample of able-bodied men (15 to 60 years of age) worked full time; the remainder worked either part time or not at all. Idleness averaged 1.7 months per able-bodied man per year. ^{4/} Most of this idle time was in the winter months and includes all those who could not find subsidiary work to tide them over the agricultural slack season.

Underemployment, or the underutilization of labor, is only partly covered by the seasonal unemployment indicated above. Although most qualified observers believe that chronic underemployment has persisted in rural China for generations, very little statistical evidence is available for documenting or quantifying this view. There is, in fact, no simple technique for measuring the degree of surplus labor on the land. Labor is considered here to be redundant or surplus to the degree that workers could be withdrawn without reducing the level of output.* It is not known whether the Chinese Communists

* By using this general standard, estimates have been made for Eastern Europe which indicate that, in 1939, one-quarter to one-third of the farm population was surplus, varying from 33 percent for Yugoslavia and Bulgaria to about 25 percent for Poland and Greece, about 20 percent for Rumania, 15 percent for Hungary, and about 10 percent for Czechoslovakia. ^{5/} In prewar Egypt, one observer stated that with better farm management "one might envisage with fair assurance the reduction of the agricultural population by at least 50 percent without reducing the total products from the land and without much more mechanization than at present." ^{6/}

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would define surplus manpower in the same way. They have used the term, however, in reporting on a survey in 1955 of farm cooperatives. According to this source, 7/ surplus manpower totaled 26 percent of the labor force in selected cooperatives of Hopeh Province, 30 percent in cooperatives of Shansi Province, 17 percent in cooperatives of Kiangsu Province, and 35 percent in cooperatives of Szechwan Province.

B. Rural Labor Policies Under the Communists.

Since the Communists assumed control in 1949, little information on rural underemployment has been released except in indirect references. The agrarian policies of the Chinese Communists indicate, however, an awareness of the problem and an intention to obtain more efficient use of the enormous rural labor supply. Given a situation in which the rural labor force contains a high proportion of redundant labor, several alternatives for ameliorative action are possible. The most obvious remedy for rural underemployment is the creation of new employment opportunities, preferably off the land and in manufacturing industries, under conditions of rapid economic development. Assuming that this more or less ideal solution cannot be achieved rapidly enough, then the alternatives are to raise output and hence employment by heavier investment in agricultural production, more efficient organization of production activities, redistribution of labor from areas of dense concentrations to areas of virgin or reclaimed land, or, finally, by using the surplus labor to create capital improvements on the land at minimal investment cost. The Chinese Communists are in fact applying all of these latter methods in varying degrees. Investment in fertilization, better equipment, and better seeds, although of fundamental importance in raising agricultural productivity, will not be discussed in the following sections, because of the indirect relationship to labor and underemployment.

1. Collectivizing the Peasantry.

Collectivization of the Chinese peasants has reordered the production relationships on the land and may result in a further intensification of labor inputs. Regulations for higher state agricultural producer cooperatives, passed by the National Peoples Congress in June 1956, require a higher degree of specialization and a more elaborate division of labor than was previously the rule among farm laborers. 8/ In addition, work quotas are combined with production

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goals in an effort to obtain the highest possible output from intensive-labor application. Emulation drives are to be organized in the cooperatives to speed up work, presumably in much the same way that they have been used on factory production lines. Workers are subject to labor disciplinary rules, infractions of which are punishable by reduction in pay, fines, dismissal from one's position, and, finally, expulsion from the cooperative. A more efficient organization of farm labor, probably even more than the speedup of work operations, should account for some increase in agricultural output, but, to the degree that greater efficiency is achieved in already highly intensive labor practices, it is logical to expect an increasing amount of labor to become available for other work. It is obvious, in fact, that the Chinese Communists do not expect more intensive use of farm labor to reduce materially the amount of surplus labor. One of the best indications of this fact can be found in the stress now laid on projects which require large numbers of farm labor but which are not directly involved in crop production.

2. Mass-Labor Projects.

The Chinese Communists plan to channel large numbers of the surplus rural population into construction projects which can use masses of unskilled labor without at the same time requiring large investments in capital equipment. Surplus labor from the farms can be used to advantage on water-conservation projects, road building, land reclamation, afforestation, and similar tasks requiring relatively small capital inputs. Far from being make-work, these tasks are in the long run essential to raising agricultural production and thus are significant contributions to the national output. The cost for these projects is composed largely of expenses for labor, which in most cases are little more than subsistence for the workers.

The scope of construction projects undertaken since 1950 demonstrates clearly that the Communist officials experienced no difficulties in obtaining sufficient numbers of unskilled, surplus laborers for their needs. In water conservancy, for instance, the 1.7 billion cubic meters of earthwork completed in 1950-52 required the effort of 20 million workers. 9/ There has been no indication that the government met any unusual problems in collecting the workers required for construction on this scale. This is, in fact, not unusual considering the source of labor used on these projects.

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a. Corvée Labor.

Corvée labor refers to unpaid or partly paid labor exacted by public authorities. This levy on labor is traditional to China and most of the Far East, where it has generally been accepted as simply another form of taxation. This system was used most often in agricultural slack seasons for the construction, repair, or maintenance of public works such as roads, irrigation canals, and dikes. The Communists have expanded this usage, lengthened the period of service, and made it impossible for the draftee to hire a substitute. Having thus strengthened the system for their own uses, the authorities now have a highly effective means of utilizing the masses of seasonally unemployed and chronically underemployed. Costs for corvée labor have varied widely. In some cases, workers have received no pay and have had to furnish their own food, 10/ in other cases food was provided, and in some cases wages were paid. 11/ The corvée system has worked well under the stress of natural calamities, notably during floods, when enormous supplies of labor were needed for strengthening the dikes and for other flood-control measures. Following the disastrous floods in 1954, for example, dike repairs alone required 5 million to 6 million workers over a 3-month period. 12/ These workers were drawn from the flood-affected areas and were paid for work instead of relief, a common practice now for all disaster victims.

b. Forced Labor.

Forced labor, or penal labor (which the Communists prefer to call labor reform), has been used in factory work, agricultural production, and construction work. The diversity of uses for this type of labor is a function of its complete control by the authorities. Forced labor has more mobility than corvée labor, which is almost always recruited in the local area of the project. No evidence is available for cost comparisons of penal and corvée labor, although it seems likely that the cost of feeding, housing, and guarding the forced labor would result in a higher cost per person than would be the case with corvée labor, which presents no housing or security problem.

The Communists announced in 1954 that more than 83 percent of the prison population were engaged in production, 13/ and subsequent indications are that the current participation rate is probably higher. Lacking even the most rudimentary statistics on the

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number of prisoners in China, estimates on the size of forced labor camps have varied widely. The size of the penal labor force has been augmented by each major "campaign" in Communist China -- land reform, "three-anti" and "five-anti" campaigns, roundups of counter-revolutionaries -- all of which sent hundreds of thousands, if not millions, of political and class enemies into detention. When, in addition, the common criminals and other "undesirables left over from the old society" are considered, it seems likely that the total number of convicts must run into the millions. If they had not been placed under detention, most of these individuals would be unemployed today, because the Communist regime has consistently sought to eliminate its political enemies by wiping out their means of economic support, including the right to seek employment.

3. Subsidiary Occupations.

Rural subsidiary occupations, mainly in handicraft and commerce, were almost completely neglected in the rapid socialization of agriculture, 14/ with consequent declines in employment, production, and income. This loss to the economy has not been balanced by the increased availability of labor for agricultural production. In order to use this labor more profitably, the Chinese planners are now attempting to redress their neglect of the subsidiary occupations. A recent directive on agricultural cooperatives, 15/ for example, has ordered that subsidiary production be revived by organizing "side-line production teams" made up of former part-time handicraft workers. If the agricultural cooperative "does not possess the requirements for engaging in such side-line production, it may let the workers run their own business at their own profit or loss." 16/ By allowing greater freedom in part-time handicraft, commercial, and service occupations, a considerable gain in employment might be made in the rural areas. At the same time, the income of the peasants could be supplemented and larger amounts of consumer goods could be produced, which would contribute to relieving two important sources of rural discontent.

III. Unemployment in the Nonagricultural Sector.

The First Five Year Plan (1953-57) of Communist China, unlike the industrialization efforts of most other countries, has not yet required a large-scale movement of surplus farm labor into the cities. On the contrary, stringent measures have been taken to prohibit this movement, and in a number of cases, surplus labor has been moved out of industrial cities and returned to rural areas. In spite of these controls, however,

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urban population in China has grown rapidly since 1950. Net growth of employment opportunities, on the other hand, has undergone a slower rate of growth, so that the urban supply of labor has probably exceeded the number of available jobs consistently since 1950. The resulting degree of unemployment and underemployment has never been subjected to careful measurement. Communist admissions of unemployment, ranging between 2 million and 3 million people, are believed to be underestimates of the actual situation. If these estimates are actually based on unemployment registration data, as sometimes alleged, the incomplete nature of the registration statistics* would account for the apparent underestimate. In general, however, published statements on unemployment and surplus labor are marked by the absence of any attempt at quantification. It is possible, nevertheless, to make rough assumptions of the degree of unemployment by reference to changes in urban population. As the Chinese have acknowledged jobs to be the fundamental determinant of the population capacity of cities, 18/ their attempt to control the size of urban centers has been one of the most pertinent indicators of employment opportunities in those areas.

A. Growth of Urban Population, 1950-57.

According to Mao Tse-tung, "if China is to build huge people's industries and many large, modern cities, she must go through a long process of converting rural population into urban population." 19/ This seeming truism, supported by evidence from almost every industrialized society, may have to be amended for China, because no precedent exists for a nation attempting rapid industrialization with comparable demographic problems. Certainly the process of urbanization in China will be affected not only by future industrial development but also by the demographic base upon which these changes must occur.

The rural-urban distribution of China's population in 1953 -- announced as 13.3 percent urban and 86.7 percent rural -- suggests the rural, agrarian nature of the society. In the highly industrialized US, 64 percent of the population were classified as urban in 1950. 20/ In terms of absolute numbers, however, this difference is less extreme; the US classified 96.5 million people as urban in 1950, and China -- undoubtedly using a less inclusive definition -- listed 77.3 million as urban in 1953. By 1956, Communist China was estimating the urban

* Not only were part of the unemployed forbidden to register, 17/ but many of those eligible to register failed to do so because of the explicit compulsion to take whatever work might be offered.

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population as 90 million people, 21/ 17 million less than the US urban population for the same year and 3 million more than the Soviet urban population, also for 1956. 22/ The skills, education, and productivity of the above urban populations remain, of course, the most significant economic factors, but the comparison in terms of quantitative size is relevant to availability of labor supply and suggests important differences between recruitment of industrial workers in the US and the USSR on the one hand and in China on the other.

Official Chinese Communist announcements have indicated a growth in urban population of the following order: 1950, 58 million people; 1953, 77 million people; and 1956, 90 million people. The claimed increase of 33 percent from 1950 to 1953 is believed to be overstated because of the inaccuracy of precensus estimates, almost all of which were too low. Also the expansion of urban boundaries has added large numbers previously defined as rural inhabitants. The increase from 1953 to 1956, approximately 17 percent, is considered more reliable, although it too contains rural inhabitants reclassified by the enlargement of urban boundaries. The official estimate of urban population growth over the First Five Year Plan is apparently 33 percent, 23/ which would represent an average annual gain of 5 million people, resulting in an urban population for mid-1957 of about 95 million people.

1. Migration to the Cities.

Before the Communist takeover, migration of peasants into the cities traditionally reached its annual peak during spring, when winter food stocks ran low, and was generally followed by a substantial backflow as soon as conditions in the rural areas returned to normal. After 1950 the increment remaining in the cities became larger, presumably because of the preferential treatment accorded urban workers by the government. By 1953, extensive propaganda was ordered to inform the peasants that "industrial construction is only in the beginning stages in the cities and does not require additional workers." 24/ In addition, directives were issued forbidding the unauthorized movement of peasants into urban areas. 25/ These controls were subsequently supplemented by "spring famine relief work" for the express purpose of supplying peasants in food-short areas with sufficient supplies "so that they will not run away from their homes to escape famine." 26/

In spite of these increasingly efficient techniques of control, it is estimated that 10 million to 12 million peasants moved

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to cities between 1953 and 1957, which, together with the estimated 6 million people added by natural increase, combined to swell the urban population of China to between 95 million and 100 million. That urban population could grow so rapidly by migration -- in spite of the laws against peasant movement -- is a reflection not so much of weakness in control as of the volume of surplus labor on the land and the pervasive pressure which this exerts against the cities.

2. Evacuation of Surplus Urban Population.

The steady infiltration of peasant migrants into the cities led the Communist government in 1955 to attempt an evacuation of that portion of the urban population considered to be surplus. Although the authorities had been moving relatively large numbers of skilled workers and technicians out of coastal cities to the Northeast and Northwest, they had attempted no large-scale displacement of urban population before 1955.

Shanghai is perhaps the best example of this attempt at resettlement. As one of the most overpopulated cities in China, it has thus far received the most attention from the Communists. With a population of 5 million people in 1950, Shanghai grew to 6.2 million in 1953 and 7 million in 1955. 27/ The excess of births over deaths between 1950 and 1955 would account for an estimated addition of 600,000 to the population, but the remainder of the increase -- 1.4 million people -- represents the flow of migrants into Shanghai, mainly from rural areas. 28/ According to a Communist newspaper, 29/ in 1955 only 2,570,000 people were actually "participating in production" in Shanghai, leaving the remaining 4,430,000 "jobless." If the estimated number of dependents and others not seeking employment are subtracted from this figure, approximately 1.4 million people in Shanghai appear to have been unemployed in 1955, exactly matching the 1950-55 increase of the population attributable to in-migration.

The official plan was to evacuate 1 million of these unemployed migrants during 1955, but because of the resistance of the evacuees and the adverse reaction of the local peasantry, who had to share their limited supplies of food and land, 30/ the program was abandoned when less than 600,000 persons had been sent back to the rural areas. 31/

In a recent policy statement the Shanghai Municipal Peoples Council formulated the following measures for eliminating the continuing "state of overpopulation in the city" 32/:

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a. The unemployed must be "mobilized" for return to the countryside for agricultural production.

b. "No added workers will be enlisted for the city as a whole (in 1957), and where some factories and enterprises must have more workers, adjustment should be made by drawing from workers already employed in the city."

c. "Families of workers now living in the rural areas or other cities must be encouraged to remain where they are."

d. Census regulations must be firmly enforced in order to keep the records accurate and up-to-date.

Although it received the greatest amount of publicity, Shanghai was by no means the only city attempting to reduce its surplus population by forced return to rural areas. Canton, Tientsin, Amoy, Tsingtao, Fu-chou, Wu-chou, Harbin, Mukden, An-shan, and Lu-ta have all been cited 33/ as cities from which rural migrants were removed. It is noteworthy that several of the heavy industry cities of the Northeast are included in this list, indicating that problems of labor oversupply are not limited to the predominantly commercial or light industry cities.

Official explanations of this population dispersal have tended to stress that the peasant influx not only has compounded the difficulties of food supply and employment in the cities but also has adversely affected agricultural production through loss of labor power on the land. It is doubtful, however, that loss of unskilled labor power would be a serious problem for agricultural production. Probably the only serious drain on rural manpower has been the reported loss of members of the managerial and administrative class -- directors of agricultural cooperatives, administrative cadres, school teachers, militia chiefs, and timekeepers 34/ -- most of whom are difficult to replace.

B. Employment in Commercial, Handicraft, and Service Occupations.

The expansion and contraction of employment in commercial, handicraft, and service occupations have been a function of the rural-urban migration pattern and the government's policy toward the non-socialized sector of the economy. Both these factors have contributed, at least since 1950, to creating difficult employment problems for the

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tertiary occupations. The influx of rural migrants into these occupations after 1950 added to the pre-existing condition of under-employment. These problems subsequently became worse when the government's campaign against private business caused a sharp reduction in job opportunities in the commercial and service fields.

The proportion of urban manpower in commercial, handicraft, and service occupations has been high in China because rural migrants, having limited skills and resources, crowded into these expansible and undemanding jobs. These occupations, characterized by low earnings, low productivity, and intense competition, suffer further from a surplus of labor. 35/ In this case the size of the labor force in tertiary occupations is an indication of lack of alternative employment rather than a sign of economic progress, as is generally conceded to be the case in more advanced economies.

The increased volume of rural migration to cities, which occurred after 1950, resulted in rapid expansion of tertiary occupations. Commercial occupations, the only category for which there are reasonable figures, grew from 7 million jobs in 1950 to 8 million in 1952 (see Table 1*). 36/ This growth was presumably caused by a shift of peasants from agricultural work into small-scale commercial activities, mostly as self-employed peddlers or hawkers. Although socialization in commerce had covered 1.2 million workers by 1952, the private sector was at a higher employment level than in 1950. With a step-up in the rate of socialization and the government's 1952 campaign against private business, employment in private commerce fell off from 6.8 million workers in 1952 to 3.6 million in 1955. At the same time, employment in socialized commercial organizations doubled. The net effect, however, was a decline of 24 percent in the total commercial employment between 1952 and 1955, forcing approximately 2 million workers to seek new work. This decline was common to both rural and urban areas. In Honan Province, for instance, the number of persons in commerce represented 1.19 percent of the total population of that province in 1952 and 0.97 percent in 1954, but only 0.73 percent by February 1956. 37/ In spite of such drastic reductions in the number of personnel engaged in commerce, the Communists have claimed that the rise in labor efficiency has been so great that the net volume of retail sales by all commercial organizations in 1955 increased 170 percent above that in 1950. 38/

* Table 1 follows on p. 15.

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Table 1

Commercial Workers in Socialized
and Private Employment in Communist China a/
1950, 1952, and 1955

<u>Type of Employment</u>	<u>1950</u>	<u>1952</u>	<u>1955</u>
Socialized	382,000	1,246,000	2,490,000
Private	6,620,000	6,768,000	3,642,000
Total	<u>7,002,000</u>	<u>8,014,000</u>	<u>6,132,000</u>

a. 39/

Although efficiency has probably increased, the sharp decline in commercial jobs has harmed retail services. By 1956, in fact, the government was seeking to stop the steady shift of commercial workers out of retailing into agricultural work, as shown in the following quotation:

The current trend of business personnel changes from business occupations to agricultural occupations should be discouraged. The number of business personnel is not too large in the nation. In fact, there is a shortage of business personnel in some localities. It has been discovered that some 40 percent of the private business personnel and peddlers have entered agricultural occupations in certain localities. This trend not only inconveniences the consumers but impedes the flow of commodities. To correct this situation, propaganda education should be strengthened so that business personnel will not blindly plunge into agricultural occupations. 40/

C. Surplus Labor in Modern Industry.

Underemployment of labor, rather than unemployment, has been the more serious problem in modern industry. Having grown from about

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3 million workers in 1950 to an estimated 7.5 million in 1957, the labor force of modern industry has apparently overexpanded, with the result that large numbers of workers are surplus while at the same time receiving relatively high wages. Even in heavy industry, which has been consistently favored by investment funds, the expansion of production facilities has failed to utilize fully the employed labor force.

Between 1950 and 1954, labor productivity increased at a slower rate than employment in enterprises under the Ministry of Heavy Industry. This lag in productivity was attributed to "labor waste" which followed overexpansion in employment. 41/ This growth in employment has been more pronounced among administrative and service personnel -- called "nonindustrial" or "nonproduction" workers by the Chinese -- than among production workers. The latter grew by 96 percent between 1950 and 1954, whereas the administrative and service workers increased by 173 percent. 42/ This disproportionate rate of growth has been cited as the prime cause for the poor showing in productivity, as evidenced in the following quotations 43/:

In the last several years, the excessive number of employees in enterprises has had a bad effect on the increase of labor productivity in these enterprises. In particular, the overemployment of personnel in administrative departments and of nonindustrial personnel has caused the labor productivity of the whole personnel force to lag far behind the labor productivity of production workers. For example, in 1954, labor productivity for the total personnel force in building construction and installation enterprises under the Ministry of Heavy Industry was only 56.5 percent of the productivity of production workers in these enterprises. In the first quarter of this year [1956], the number of workers in half of the productive plants and mines under the Ministry of Heavy Industry exceeded the plan figure. If these plants and mines had been able to restrict their personnel to the plan number, then they could have raised the labor productivity of workers for the first quarter of this year 3.2 percent above that of the same period of last year. 44/

Personnel waste is also widespread and serious. Confused administrative structures and excesses of personnel in supporting departments occur in all

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enterprises. The number of employees in an enterprise just beginning operations invariably exceeds the norm prescribed in Soviet Union designs. For example, employment at Plant 301 was more than 100 percent above norm, while it was 60 or 70 percent above norm at the An-shan Iron and Steel Company's large-scale rolling mill and seamless steel tube plant. In many enterprises, labor productivity has been extraordinarily low, and the loss of work-days has been very high. In the case of miners in the mines, the actual working time consumed less than one-third of the shift each day. In comparison with the labor productivity in factories and mines of similar nature in the Soviet Union and in the new democracies, productivity in many of China's enterprises is from 50 to 100 or 200 percent lower. This clearly shows the personnel waste and low labor productivity in China. 45/

The government's response to these conditions has been an official campaign of retrenchment. Beginning in 1955 and again in 1957, official policy has endorsed reductions in force for those departments with surplus manpower. Although the retrenchment campaign has hit hardest at the governmental bureaucracy, it has also singled out many industrial plants for criticism. The Ministry of Heavy Industry, for instance, issued a directive in 1955 that all enterprises under its control should cut back their personnel rolls selectively 15 to 20 percent. 46/ In addition, all enterprises were to dispose of their surplus personnel as expeditiously as possible rather than retaining them in pools for possible future use. As a result of these orders, the Ministry of Heavy Industry reported that 7 large plants -- the Shih-ching-shan Iron and Steel Plant, the An-shan Iron and Steel Company, the T'ung-kuan-shan Bureau of Mining Affairs, the Liu-li Ho Cement Plant, Cement Plant No. 7, the T'ang-ku Plant of the Yung-li Chemical Company, and the Main Nan-fen Plant in Pen-ch'i -- succeeded in reducing their personnel rosters by an average of 19.4 percent. 47/

Any reductions in force achieved in 1955 were probably nullified in 1956, when 2.8 million new wage earners were added to the national economy. 48/ This has resulted in charges that the labor plan in 1956 was too loose and that the number of personnel was "overly increased." 49/ Chinese authorities have ordered that in 1957 industrial enterprises are

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to work out their labor plans so that no new workers are hired and the number of administrative personnel and temporary workers is reduced -- all this "in order to achieve the targets of increasing production, reducing costs, and raising labor productivity." 50/

The overhired condition of the industrial labor force is reflected also in the decision to withhold trained apprentices from employment. At the end of 1956, there were 370,000 apprentices in training, most of whom were scheduled to become journeymen and enter production in 1957. 51/ Instead of entering the labor force, these apprentices are to be kept in training until a demand for their service develops. The following official explanation of this situation is believed to be accurate and realistic:

The need for new workers actually required this year [1957] has been considerably reduced. Some departments even have a surplus from their original working force and do not need additional personnel. Under such circumstances, if the 370,000 apprentices were promoted to journeymen according to the original plan this year, the state would have to pay many unnecessary wages. Increased expenditures would unfavorably affect construction contracts, the balance in financial income, and the stabilization of commodity prices, and would be detrimental to the long-term interests of the state and the people. 52/

The relationships between wages and unemployment have not been explored by economic planners in China, presumably because of the reluctance to acknowledge the existence of unemployment. According to the Chinese Communists, wages are to be raised only as productivity is increased, and, as a general rule, wages should increase at only half the rate of productivity. 53/ The possibility of wages responding to the supply and demand for labor has apparently received no comment in Chinese journals. Under the conditions of underutilization of labor which were described previously for modern industry, it would be logical in a relatively free economy to expect some decline in average wages when the labor supply exceeds the demand. In the controlled economy of the Chinese Communists, on the other hand, wages should be mechanically adjusted to changes in labor productivity. For the years 1953, 1954, and 1955, however, it appears that wages, rather than being controlled by administrative fiat, actually followed fluctuations in the supply and demand for labor. As shown in the following tabulation, 54/ the

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trend of wages among workers and employees was certainly not attuned to changes in labor productivity:

	<u>Increase in Labor Productivity (Percent)</u>	<u>Increase in Wages (Percent)</u>
1953	13	5.0
1954	15	2.6
1955	10	0.6

The slump in wage increases for these years, culminating in actual wage decreases in 1955, apparently resulted from economizing moves which concentrated heavily on labor, the only productive factor that China has in surplus quantities. The primary aim was to cut wage costs by eliminating redundant labor and by trimming wages. Reducing surplus labor was strongly advocated but rarely implemented. Average wages, however, were held back by eliminating year-end and incentive bonuses, reducing piecework, and delaying promotions. 55/ As a result of these actions, average wages in heavy industry, to cite one example, declined 1.75 percent between 1954 and 1955. 56/ In addition to this fall in average wages, the total amount of wages paid failed to fulfill the plan figure for 1955 in spite of a rise of 14.2 percent in labor productivity over the same period. Similarly, the Iron and Steel Industry Control Bureau, although achieving its goals for production and productivity, had to admit that 84 percent of the enterprises under its control failed to utilize fully their wage funds according to plan in 1955. 57/ The average wage per employee was only 95.24 percent of the plan figure, a drop of 0.6 percent from the same period in 1954.

Thus far the Chinese Communists have chosen to ignore the relationship between wages and labor supply discussed above. This choice cost them heavily in the wage reform of 1956, when, apparently endeavoring to bolster incentives, the authorities raised wages an average of 14 percent for all government enterprises. 58/ The net result, given existing unemployment and redundant labor, has been an increase in costs, which in turn is reducing profits 59/ with no compensating rise in productivity. With the increases in wage funds encouraging job seekers and contributing to further expansion of employment, the number of workers added in 1956 has been called "excessive," and, as a result, productivity is expected to be adversely

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affected throughout 1957. 60/ Consequently, orders have been given that wages are not be raised in 1957, that no promotions are to be given, and that no personnel are to be added except under strict control. 61/

IV. Official Policy Toward Unemployment.

Official Chinese Communist statements on unemployment have been marked by vacillation and equivocation. Spokesmen for the government have successively ignored, minimized, and given great significance to the problem of unemployment, with perhaps the dominant attitude being one of patient faith in the promised efficacy of socialist solutions. These fluctuations in official attitudes have been reflected in policy changes which also show a considerable variation in range and objective. Recent developments, however, have shown more flexibility in action, indicating that the Chinese Communists, instead of accepting the doctrinaire position that unemployment cannot exist in a socialist state, are realistically accepting unemployment as one of the "contradictions" which will require much time and effort to solve.

By 1952, after only 3 years of control in China, the Communists claimed considerable success in reducing the unemployment "left over by the old society." By retaining most of the governmental and educational personnel who had worked under the Nationalists and reinstating factory and mine workers wherever possible, the Communists claimed to have greatly alleviated problems of unemployment in China. 62/ According to the Communists, employment was high in 1952, and those unable to obtain jobs were largely ex-Kuomintang officials and army officers, landlords, and unreconstructed intellectuals. These groups would be integrated into the labor force as soon as their thoughts were reoriented. Underemployment was recognized as a problem in 1952, but only a temporary one. Surplus workers were to be retained by all public and private enterprises and were to undergo training until needed. The rural surplus labor, according to these same theorists, should be moved to the northeast, northwest, and southwest in order to open up barren land for agricultural production. 63/

The simplicity of these plans of 1952 reflects the optimism characteristic of labor policy in the first 3 or 4 years of the Chinese Communist government. Even though the Communists acknowledged that the economic and social reform of business, as well as land reform, would create additional unemployment in the cities, the authorities assumed that "large-scale national construction" would insure full utilization

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of surplus labor in both the urban and the rural areas within a relatively short time. 64/ This condition had not been achieved by 1956, however, and official policy consequently began to shift on a number of points.

Article 39 of the Draft 12-Year National Program for Agriculture states that unemployment in the cities will be settled in 5 or 7 years from the beginning of 1956. 65/ Not only does this statement acknowledge that unemployment is a long-term, continuing problem, but also it indicates that agriculture is expected to absorb much of the surplus labor of China. Evidence of this expectation is found in the evacuation programs which attempted to return surplus urban population to rural areas. In this respect, there has been a persistent belief that agriculture, primarily through reclamation and exploitation of marginal land, could maintain even greater densities of population on the land than is presently the case. Socialization of agriculture is also expected to facilitate the expansion of the rural labor force. The following statement, from an official Chinese news service, is a typical example of this somewhat naive faith in reclamation:

The work of reclaiming wasteland is an easy way to increase agricultural production. There is much wasteland in China which has never been reclaimed. Therefore, wasteland-reclamation work will undoubtedly offer a good opportunity for fully utilizing the surplus labor force of our country. In addition, it is also necessary to have a large number of the unemployed personnel in urban areas participate in agricultural production work in rural areas. In Peking, Shanghai, and the Dairen - Port Arthur areas, many unemployed personnel and surplus labor forces have left for rural areas to take part in agricultural production. 66/

The lack of success in the evacuation of surplus urban population, as mentioned before, has forced the Chinese Communists to reconsider their entire plan for moving excess labor to the fringes of productive land. Significantly, no migration program was scheduled for 1957, although movements of excess population from cities have continued. Instead the entire effort was to have been spent on consolidating the 1956 work -- when 430,000 people 67/ were involved in interprovincial moves -- and preparing for the 1958 program. 68/ This fact suggests that the Chinese Communists now recognize that migration of surplus labor into relatively

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nonproductive areas is no panacea for employment problems, especially when the cost in scarce capital investment funds is realistically considered.

Another significant policy shift has been made in the case of working women. Although women have always assisted in varying degrees in farm labor and handicraft work, the Communists encouraged them to enter industrial occupations where women had not been represented previously. Women wage workers, under this impetus, increased to approximately 3 million in 1956, 69/ more than 12 percent of the total number of wage earners. Recently, however, this policy has been reversed. Now women are encouraged "to restrict themselves to their domestic work in the family" in an attempt to convince them that they are "making great contributions to society if they do their part in educating their children and take care of their husbands." 70/

Having thus complicated the problem of employment by increasing the number of competitors for the relatively scarce wage-paying jobs, the Chinese Communists are now attempting to work themselves out of this self-imposed problem. The USSR faced a similar paradox on the eve of World War II when the Soviet government was encouraging housewives to enter the labor force in as large numbers as possible while at the same time acknowledging a surplus of 5 million unused people in the agricultural labor force. 71/ In both the USSR and China the response of housewives to the government's call was impressive, although the prime reasons, in both cases, seem to have been the need to contribute to the earnings of the husband -- which were insufficient for the family budget -- and the expansion of child-care facilities. The solution to this problem in the USSR grew out of the enormous loss of population in World War II and the subsequent growth of nonagricultural jobs. Because underemployment is far more drastic in China, and because there is no basis for predicting a major drop in size of the population, and, finally, because nonagricultural employment is scheduled to grow slowly through the Second Five Year Plan, the present Chinese Communist policy of discouraging the entrance of women into the labor force seems to be the only practical alternative.

In a further effort to slow the growth of nonagricultural labor, the Chinese Communists are seeking to divert graduating students and apprentices away from the industrial labor force. Recent policy advocates that "those students who are unable to continue further studies should be mobilized to take part in agricultural production

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if their families are in rural areas. As for those whose families are in cities, we should encourage them to take up apprenticeship at the public service enterprises and to prepare themselves for seeking employment or further schooling in the future." 72/ In addition, it has been suggested that students who cannot continue their formal education would get "state assistance to set up groups to assist one another to continue their studies and to learn trades." 73/

As indicated above, Chinese Communist policy on unemployment has tended to shift between a "soft line" and a "hard line." The "soft line" has encouraged economic enterprises to retain surplus personnel and train them for future opportunities. This soft approach has also encouraged payment of direct relief to the unemployed and subsidization of training programs for the jobless. The "hard line," on the other hand, has specified that surplus labor be dismissed with no suggestion of training opportunities or relief measures. This approach has also advocated that the government should make the unemployed find work by their own efforts without the assistance of the state. As yet no single line of policy has been consistently supported by the government. Most recently the tendency has been to stress the difficulties of the employment situation and to argue, as did a survey team investigating unemployment in Peking, that those who are unemployed do not really need to work anyway:

The survey team was of the opinion that ours is a populous country; at the present time it is also a country with a backward economy and low production. To provide employment for all would involve considerable difficulties. As long as some member of a family is employed and the livelihood of the family can be maintained, it should not be necessary for the state to provide employment.

During the survey the team also discovered that the development of diverse types of secondary and handicraft production would not only help the unemployed ease their livelihood difficulties to a certain extent, but would also be helpful to the general public. 74/

As yet there has been no consistent policy of creating jobs simply to keep people occupied. Work-relief has been used for disaster victims in rural areas instead of direct relief, and trainees have had their apprenticeship period extended, but keeping surplus labor on the payroll merely in order to keep them off unemployment rosters has been strongly

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discouraged. Practices of paternalism and nepotism, which formerly flourished in China, have been drastically cut by the Chinese Communists. Raising productivity, at least in official policy statements, is always more important than keeping the labor force employed. This goal, however, has not always been achieved. In 1956, for example, rapid expansion of wage and salary workers caused a drop in the growth of labor productivity through the first three quarters of 1956, 75/ when twice as many new employees were being added as called for in the plans of that year. 76/ This upsurge in employment not only exceeded the needs for 1956 but also "surpassed the actual needs for 1957," according to the National Conference on Labor Assignment, which met in Peking during April 1957. 77/ This admission of overexpansion in 1956 and readjustment in 1957 is not unique to the labor field but has generally characterized the national economy of Communist China in 1956 and 1957. Labor availability, however, will become increasingly abundant in future years as the rate of population growth increases. Productively employing this population increase, with the limited investment sources available, is steadily being recognized by Chinese Communist planners as the heart of their problem, for which no easy solutions are in prospect.

V. Prospects.

Immediate prospects are for continued unemployment in Communist China. The First and Second Five Year Plans, running through 1962, do not provide for sufficient new jobs to ease greatly the present condition of underemployment and unemployment. With entrants into the labor force outnumbering the new jobs in industry and construction, the excess of job seekers will have to be accommodated in agriculture, which is already burdened with more abundant labor power than it can efficiently use. Because the stress of the First Five Year Plan has been largely on capital-intensive projects, however, the relatively modest demands for labor are expected to make little inroads on the millions of rural workers now underutilized by inefficient techniques and inadequate capitalization. Long-range prospects for employment are dependent not only on how rapidly industrialization can be pushed but also on how rapidly the population will grow. If the net annual growth of the Chinese population is now about 15 million people, as the Chinese Communists claim, 78/ then problems of employment can be expected to persist, even with steady progress toward industrialization.

In spite of conflicting announcements on the level of employment in China, there seems to be general agreement that the number of workers added in 1956 was excessive and that considerable retrenchment

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will be required in 1957. Although the State Statistical Bureau 79/ and the State Economic Commission 80/ have not used the same figures, they both have put the number of wage workers at between 24 million and 25 million people at the end of 1956. According to the State Economic Commission, more than 1 million workers were employed during the fourth quarter of 1956, of whom more than 50 percent were on a temporary or seasonal basis. During 1957, therefore, a reduction of approximately 140,000 workers is planned in the total number of wage workers in the state plan,* given as 22,400,000 in 1956 and estimated at 22,262,000 by the end of 1957. 82/

What is not acknowledged is that the First Five Year Plan called for an increase of workers and staff (including both public and private employment) from 21 million in 1952 to 25.2 million in 1957. At the end of 1956, according to the State Economic Commission, there were 24.17 million workers and staff members, of whom 22.4 million were under the state plan and 1.77 million still outside of the socialized economy. If a reduction of 140,000 workers is planned for 1957, then the number of wage workers should total about 24 million at the end of 1957, or 1.2 million workers fewer than specified in the First Five Year Plan.

It should be noted that the employment goals of the Five Year Plans, unlike the production goals, have not been targets to surpass or over-fulfill. On the contrary, every indication suggests that it has been an upper limit beyond which the planners expect depressed productivity and inflated wage costs. 83/ The increased cost of the wage fund is already exerting pressure on economic planners to keep the number of wage earners in conformity with the previously agreed schedule. It is expected that this pressure will continue through the Second Five Year Plan, with efforts being made to keep the growth of wage earners within the planned limits of 6 million or 7 million workers. It is assumed, of course, that Chinese Communist estimates of planned increases in the working force realistically reflect the probable demands of scheduled expansion in production facilities. It appears that the Chinese planners, if they are in error on these estimates, are probably erring in the direction of overestimating demand for labor. Thus far the redundancy of labor in the new industrial facilities has been one of the

* This number includes, according to the Chinese Communists, "the total number of workers and staff members of state-owned enterprises, enterprises operated by cooperatives, state-private jointly operated enterprises, government agencies, people's organizations, and the departments of culture, education, science and public health throughout the country, which were included in the state plan." 81/

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most persistent complaints of those concerned with cost accounting. An example of these complaints appeared in a recent authoritative statement by Vice Premier Po I-po:

Our country has a large population and is rich in labor resources. At present there is an excess of workers and staff members in the factories, mines, and enterprises, throughout the country. As our industry can only be developed gradually, it is impossible to employ large numbers of workers and staff members annually. Therefore, we cannot rely solely on industry for the employment of labor. We should put our minds to agriculture, agricultural subsidiary production, and handicraft industry, which provide greater opportunities. 84/

Assuming that the number of wage earners increases by an average of 1.3 million a year during the Second Five Year Plan as planned, this would account for only about one-fourth of the minimum number who annually during 1958-62 are expected to enter the labor force in search of work.* The remainder, about 4 million people, would annually enter agriculture, handicraft, or some self-employed activity, or would remain unemployed. Agriculture undoubtedly will be forced to absorb most of the labor force increase over the period of the Second Five Year Plan. Underemployment in rural areas is both less obvious and less costly than in urban areas. It is therefore likely that surplus urban population will continue to be moved out of cities and shifted to rural areas for farm work, even though opportunities are no more plentiful in those areas than in cities. A continued emphasis on massed labor projects is probable, therefore, in order to utilize rural labor which might otherwise be wasted in unprofitable work. If Chinese agriculture is to continue raising total output, increased capitalization and improved techniques will be far more important than increased labor inputs.

* Losses to the labor force through death or retirement are expected to be quite low through this period. A survey made in 1955 indicated that 92 percent of all industrial and construction workers were below the age of 45 years and that only 1 percent of the total were over 55 years of age. Workers over 60 years of age included only 0.3 percent of the total. 85/ If this same proportion applied to the 24 million wage workers in 1956, then it would follow that only 72,000 wage workers were over 60 years of age in 1956.

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Rapid economic development, spurred by emphasis on industrialization, would appear to be the long-range solution to the employment problems of China. There is some question, however, whether or not Communist China can develop its economy fast enough to provide the necessary capital for further investment and at the same time meet the consumption demands of its large and rapidly expanding population. This matter of timing is further related to the concentration of investment funds in modern, mechanized industrial plants, which obviously are not designed to ease the unemployment problem. The Chinese believe that capital-intensive industries will, over the long run, generate a greater surplus for capital formation and thus make a bigger contribution to national income and employment than would the traditional labor-intensive industries.

In the case of the cotton-textile industry -- as, for example, in India (see Table 2) -- it is apparent that small-scale plants not only

Table 2

Relationship of Capital, Output, and Employment
in the Cotton Weaving Industry of India a/

Type of Industry	Rupees			
	Capital Per Worker	Output Per Worker	Output Per Unit of Capital	Labor Employed Per Unit of Capital
Modern mill (large scale)	1,200	650	0.54	1
Power loom (small scale)	300	200	0.67	4
Automatic loom (cottage industry)	90	80	0.89	13
Handloom (cottage industry)	35	45	1.29	34

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can employ more workers than large-scale plants (per unit of capital invested) but also can achieve a higher output for the same amount of capital. In China, similar evidence has been cited for seamless tubing plants: "The funds used for building a highly automatic plant capable of producing 60,000 tons of seamless tubing a year are enough to build two plants with less degree of automation capable of producing more than 100,000 tons of seamless tubing a year." 87/ Because there has been growing recognition 88/ that investment in smaller plants will give quicker returns, in both profit and physical output, Chinese Communist planners are now shifting toward more emphasis on small- and medium-scale plants. 89/ This policy shift implies shortcomings in previous investment planning -- that is, concentration of investment in capital-intensive, modern plants not only used large amounts of scarce capital funds but concomitantly failed either to utilize the abundant manpower resources or to maximize output.

Although the comparison of plant size is made within the same industry, there are also employment problems involved in investment policy between different industries. Wu Ching-ch'ao, a prominent economist, has stressed this fact by pointing out that the Second Five Year Plan of Communist China has plans for hiring less than one-fourth of the people who can be expected to ask for jobs. 90/ To illustrate the high cost of raising employment in modern industry, Wu cites the following examples of the investment cost in India for each additional worker by industry 91/:

<u>Type of Industry</u>	<u>Investment Required for Each Additional Worker (Rupees)</u>
Basic industry	20,000
Consumer goods industry	8,750
Service industry	3,750
Family industry (including agriculture)	2,500

In spite of the far greater cost of raising employment in industry, Wu concludes that China must keep the emphasis on rapid industrialization. Admitting that this policy will create employment problems over the "next few Five Year Plans," Wu recommends birth control as the only solution to employment difficulties. 92/

With the population increasing at a reported net gain of approximately 15 million people a year, birth control has become a major

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objective of the Chinese Communists. The prospect that the population growth of China might level off in the next 10 years, however, is considered unlikely, because any decline in birth rates resulting from the government's program of birth control would probably be more than balanced by declines in the death rate. In any event, control over the growth of population is a long-range solution that has little to do with the employment problem over the next 15 years, the labor-force candidates for that period having already entered the population.

The number of Chinese outside the labor force who are neither at work nor seeking work is estimated to include more than 320 million people in 1957. This burden of dependency is now growing rapidly as reductions in infant mortality allow more and more of the annual crop of babies -- believed to number about 30 million a year 93/ -- to survive to adulthood. The proportion of the population aged 0 to 15 years is expected to increase during the next 10 years, during which time the labor-force participation rate will decline. Thereafter the number of entrants into the labor force should increase abruptly as the effects of lowered mortality in the post-1950 period are felt in the labor force. The resulting increase in need for employment is not expected to be felt before 1965, when the present baby boom reaches the labor market; the capital investment necessary to expand opportunities for employment, however, will depend on accumulation in the interim period. This accumulation of capital will have to compete with the consumption needs of a population which has recently entered a stage of rapid growth.

To summarize, prospects in Communist China for significant changes in unemployment and underemployment are largely dependent on official policies of investment and manpower allocation. These policies, with their expected effect on employment problems, can be subsumed under four general categories:

1. A shift of investments to smaller industrial plants can be expected to open up new employment opportunities at a relatively modest cost. As this new policy is already being implemented, 94/ it is likely that most of the industrial workers now classified as surplus can be absorbed in the proposed small- and medium-size plants.

2. The policy of according priority to heavy industry is expected to be maintained. This policy will continue to require large capital investments for each worker added to the labor force, whereas a policy

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favoring consumer, or light, industry would more efficiently utilize the large manpower potential, and with lower investment requirements.

3. The birth control policy of Communist China is not expected to lower significantly the present high rate of population growth, over at least the next decade. Not only is the rapidly growing population requiring a large share of the national income for consumption but it is thereby limiting capital formation which will be necessary for expanding job opportunities in the future.

4. The heavy stress placed on socialization by the Chinese Communists has greatly restricted opportunities in private and self-employment. Recent encouragement of subsidiary occupations in rural areas should ease the underemployment problem there, assuming a continuation of this relaxed policy. In urban areas, however, governmental limitations on self-employment and private employment will probably continue to make this sector a poor source for new employment.

In short, the government of Communist China seems committed to a program which offers little hope of expanding job opportunities fast enough to keep up with the need. With the population now growing at a steadily increasing rate, the demands on the national income for both consumption funds and investment funds can be expected to grow at an even faster rate. Only a major shift in investment policy, or decimation of the population, could greatly reduce the underemployment which is expected to remain through at least the Second Five Year Plan.

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