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**China:
Problems in Meeting
Consumer Expectations**



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A Research Paper

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China: Problems in Meeting Consumer Expectations



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A Research Paper

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This paper was prepared by

Office of East Asian Analysis.

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Comments and queries are welcome and may be
addressed to the Chief, Domestic Policy Branch,
OEA,

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Key Judgments

*Information available
as of 1 November 1982
was used in this report.*

China's post-Mao government faced a discontented population when it took office in 1976. Wages and living conditions had not improved since 1957; real income for urban workers was down and peasant income had increased only slightly. Since 1976, as a result of heavy government expenditures on consumer programs, personal incomes have risen and living conditions have improved. There are now signs, however, that Beijing regards this heavy spending as a short-term fix and considers its debt to the consumer as largely repaid. The leadership believes further improvements in living standards, if attempted too rapidly, will siphon off resources needed for the military and for building a strong heavy industrial base.

Investment recently has rebounded, reducing the resources available for current consumption. Peasants are being told not to expect further large hikes in prices for their products, and urban workers are being advised that further wage increases must be based on gains in productivity. For the population at large, this means that, at best, living standards will improve only slowly.

The leadership's attempts to regain worker and peasant confidence by raising wages and incomes appears to have met with only moderate success. Most workers and peasants can point to improvements in their living conditions; but we believe they remain dissatisfied with the extent of those gains and skeptical of government promises of further improvements.

Beijing's measures have led to gains in agricultural productivity, but productivity in the industrial sector has responded little, if at all, to higher bonuses and wages. Moreover, these efforts have entailed considerable costs: defense spending has been squeezed; investment cuts have slowed growth in such vital sectors as energy and transportation; consumer subsidies have swollen budget deficits; inflation has accelerated; and consumer expectations have risen.

We believe that sporadic attempts at economic reforms eventually will yield some gains in economic growth. But deep-seated problems of low labor productivity and inefficient use of capital defy easy solution and will continue to hamper growth in output and personal income. As a result, discontent among the population again may grow, creating further pressures on political leaders to change economic policy.

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China's Consumers Get Attention

By investing heavily in some areas of the modern sector and using labor-intensive methods elsewhere, China attained high rates of economic growth, both in the 1950s and the decade that began in the mid-1960s. The investment was made possible at the expense of consumers, particularly since the mid-1960s. For the Chinese consumer in the mid-1970s, wages and living conditions were no better than they had been two decades earlier. There had been minor improvements—rural health services, for example—but gains were rare and it was far easier to point to evidence of decline. In the cities, public services had deteriorated, and to purchase food or get a haircut one had to wait in line far longer than in the 1950s. Official Chinese data show a 4-percent decline in real personal income per capita for urban residents between 1957 and 1975. For peasants, the data suggest a 22-percent increase, however, that works out to only a 1.1 percent average annual growth (table 1).

This prolonged stagnation of real incomes contrasts with the visible improvement in living conditions during the 1950s. During the years of the First Five-Year Plan (1953-57), urban real incomes grew at an average annual rate of 8.2 percent, peasant incomes at 3.3 percent yearly.² In 1958 and 1959, however, Beijing embarked on the disastrous Great Leap Forward, and then spent the first half of the 1960s recovering. During the 1958 to 1965 period, per capita real income for urban workers declined. Peasants fared better; by 1965 their real incomes had regained 1957 levels. During the Cultural Revolution, with its emphasis on egalitarianism and ideological incentives, Chinese data suggest that real incomes for both workers and peasants rose only slightly.

Complaints by urban workers about wages and living standards during the late 1960s and early 1970s were symptomatic of serious morale problems and growing labor unrest. The general wage increase enacted by

¹ See appendix B for a brief comment on sources and methods.

² Unless otherwise indicated, all references are to changes in per capita incomes.

Table 1
China: Per Capita Income

Current yuan
(except where noted)

	1957	1975	Average Annual Growth, 1958-75 (percent)
Urban			
Money income	253.6	268.2	0.3
Real income	253.6	243.4	-0.2
Rural			
Money income	91.8	121.9	1.6
Real income	91.8	112.1	1.1

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Beijing in 1971 and 1972 was an early attempt, largely ineffective, to placate an urban work force angry about the government freeze on wages and promotions. Similarly, recommendations in 1975 for regular promotions, wage increases, and a system of production bonuses—contained in a controversial State Council document—were aimed at redressing grievances and boosting morale.

Farmers also experienced financial difficulties, but politically they were less of a problem for the leadership than urban workers. Peasant protests about low farm prices, strictures on private enterprise, and meddling in farm operations by bureaucrats—major farm issues—were much less visible and less likely to gain momentum. Prior to the late 1970s, Beijing responded by gradually reducing the prices of industrial materials and equipment bought by rural collectives. These reductions were widely publicized, but their impact on personal incomes was slight.

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³ The document was *20 Points*, the full title for which is *Some Problems in Accelerating Industrial Development*. It was drafted under the auspices of Deng Xiaoping and became one of the issues in the struggle that led to his downfall in 1976.

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After Mao died, the new leaders thought that the settled political situation would allow a quick return to earlier high rates of growth. They developed ambitious plans for capital imports to modernize the economy—some US \$7 billion worth of complete plants were ordered from the West. But it became evident that these plans, focused on heavy industry, would not work. Shortcomings in the system of economic management and serious bottlenecks in the economy stood in the way of sustained rapid growth.

Increased Spending on Consumers

In 1977 China's leaders took the first steps to improve worker morale by increasing wages and reintroducing bonuses. Then at the third party plenum in December 1978, Beijing completely revamped its development strategy. One of the chief elements in the new strategy was a focus on consumption (rather than investment) so as to improve incentives (and productivity).

Beijing hammered out the new development strategy in a series of lengthy bargaining sessions, where bureaucrats responsible for heavy industry, construction, and the military establishment tried to minimize the damage to their own budgets. Eventual policy steps having a direct impact on consumers included:

- 1977: Promoting lower level employees one to two grades, thus raising the average wage for these workers by about 10 percent.
- 1978: Reinstating production bonuses, abandoned during the late 1960s.
- 1979: (1) Raising procurement prices paid by the government for some farm products; (2) Simultaneously, granting monthly food subsidies to all urban workers to offset increases in retail prices resulting from the increase in procurement prices; (3) Again promoting lower level employees one to two grades, thus increasing their average wages by another 10 percent.
- 1978-81: Loosening restrictions on peasant sideline activities and collective production and enlarging the scope of free markets and private enterprise.

Government Spending on Consumers, 1978-81 (yuan)

- 44.2 billion for price hikes of farm products.
- 36 billion for price subsidies for agricultural inputs and foodstuffs.
- 7.8 billion in foregone agricultural taxes.
- 30 billion for wage increases and bonuses.
- 10.5 billion in wages for new entrants to the work force.
- 2.8 billion for improvements in urban services.
- 5 billion for the state's share of new housing construction.

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According to Chinese Government reports, some 140 billion yuan were spent from 1978 to 1981 on various programs aimed at raising incomes and improving living standards (see box). By way of comparison, state budgetary expenditures in 1981 totaled only 109 billion yuan.

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With more resources being channeled into consumption, other sectors increasingly have been squeezed. The impact on heavy industry has been the greatest but even the high-priority transport and energy sectors have been affected. Chinese data show that the share of national income allotted to investment has steadily declined since 1978, while the portion going into consumption uses has risen (see table 2). In 1981 additional spending for consumption purposes exceeded in absolute terms the increase in national income, resulting in strong inflationary pressures and substantial redistribution of income.

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Official data on China's state budget also show the squeeze exerted on programs having little or no consumption components. Most notable have been the reductions in investment spending on new plant and equipment and additional restrictions on defense spending (see table 3).⁴ Revenues and expenditures

⁴ The defense item shown in the public version of the budget is only a portion—perhaps half—of total defense spending. Our estimates of total defense spending show it continuing to grow at the 1- to 2-percent rate evident since 1972.

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Table 2 *Percent*
China: National Income Use

	1978	1979	1980	1981
National income expended	100	100	100	100
Investment	36.5	34.6	32.6	28.3
Consumption	63.5	65.4	67.4	71.7

have declined since 1979, and, as mentioned, these fiscal pressures have increased bureaucratic infighting over budgetary matters. The inability to reach agreement on the cuts needed to accommodate new consumer programs in turn has been a major factor in China's series of budget deficits. [redacted]

Urban-Rural Differences

The rapid gains in peasant incomes have only slightly narrowed the differences between rural and urban living standards. For many peasants, particularly those living in the suburbs of large cities, the urban-rural gap has closed markedly. Opportunities for earning money outside of agriculture—in commerce or other service jobs, for example—are greater in the suburbs, and incomes of enterprising peasants often surpass the earnings of factory workers. This comparison of a prosperous suburban peasant to an urban worker earning an average or low wage is reflected in press reports of complaints by urban residents that the government has paid too much attention to rural living standards. [redacted]

Nevertheless, for most of China's 800 million peasants the urban-rural gap remains essentially unchanged, as it has for generations (see figure 1). Rural incomes are roughly half urban incomes, and, of the four consumer durables shown in table 4, the rural-urban ratio showed a definite improvement only for bicycles during the 1979-81 period; for radios and sewing machines it changed very little; and for wristwatches and clocks it deteriorated badly. Life for most peasants is still primitive and difficult, accompanied by supply shortages and inconveniences. City

Table 3 *Billion yuan*
China: State Budget Accounts

	1978	1979	1980	1981
Revenues	112.1	110.3	108.5	106.4
Expenditures	111.1	127.4	121.3	109.0
Of which:				
Capital construction	45.2	44.4	34.6	25.8
National defense	16.8	22.3	19.4	16.8
Surplus or deficit	1.0	-17.1	-12.8	-2.6

residents continue to earn larger incomes and receive preferential distribution of goods and services—including highly sought after items such as bicycles, electric fans, and television sets. Peasants do enjoy more living space per capita than urban workers; but rural housing in general lacks the conveniences—indoor toilets, running water, and so forth—customary in urban areas. [redacted]

Consumer Gains, 1979-81: A Summary ⁵

During the 1979-81 period, urban incomes grew by 7.5 percent and rural incomes by 14.2 percent annually in real terms. Urban gains came mostly through increases in wages and bonuses, without corresponding increases in productivity. Rural gains, on the other hand were from both price increases for agricultural products and higher productivity. The introduction of various types of responsibility systems, the expansion of private plots, and proliferation of free markets contributed to large increases in farm output and productivity. [redacted]

Savings accumulated rapidly during the 1979-81 period—the portion of income saved in urban areas quadrupled and in rural areas it doubled. Comments

⁵ See appendix A for a more detailed description of changes in income and consumption in urban and rural areas during 1978-81. [redacted]

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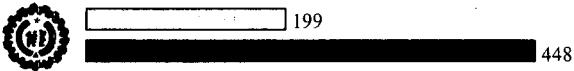
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Figure 1
China: Urban and Rural Consumers, 1981

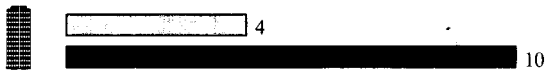
Note change in scale

□ Rural
■ Urban

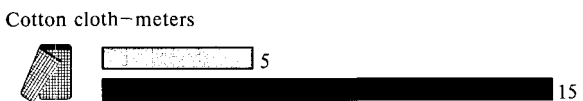
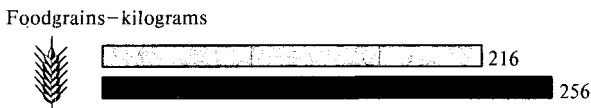
Real Income Per Capita - 1978 Yuan



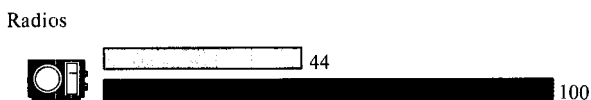
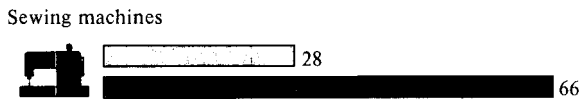
Living Space - Square Meters



Consumption of Selected Commodities - Per Capita



Household Stocks of Selected Consumer Durables - Per 100 Households

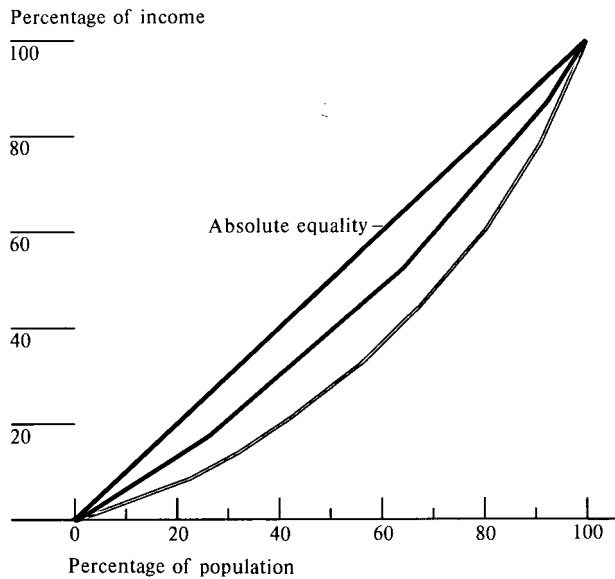


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Figure 2
China: A Lorenz Curve of Urban and Rural Income, 1979-80

— Rural
— Urban



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in the Chinese press suggest the new savings are mainly "forced" savings caused by scarcities, not voluntary savings for planned future purchases or wealth accumulation.

Income distribution in urban areas is surprisingly even, while in rural areas income disparities are wide.⁶ Per capita household incomes in urban areas, however, do differ considerably because of differences in the portion of family members employed.

⁶ A commonly used measure of the relative equality/inequality in a nation's distribution of income is the "Lorenz Curve." A rough sketch of the curve for China, based on World Bank data, is presented in figure 2.

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Table 4
China: Rural and Urban Household Stocks
of Consumer Durables

Units per 100 households
(except where noted)

	1978			1981		
	Rural	Urban	Rural as Percent of Urban	Rural	Urban	Rural as Percent of Urban
Bicycles	36	110	32.7	44	125	35.2
Sewing machines	23	58	39.6	28	70	40.0
Wristwatches and clocks	55	189	29.1	55	241	22.8
Radios	26	62	41.9	42	100	42.0

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In both urban and rural areas, consumption patterns are changing. Spending on consumer durables is rising rapidly because of pent-up demand, and the share spent on foodstuffs is staying even or declining. Expenditures on clothing are rising rapidly in cities. Peasants, on the other hand, are spending much larger portions of their incomes on new housing. [redacted]

Major Consumer Issues

Although Chinese consumers are better off now than in 1976, the gains have not been without cost. Inflation has accelerated, investment cuts have slowed the elimination of bottlenecks in the energy and transport sectors, and defense spending has been further squeezed—to name only the major consequences. Opponents of post-Mao consumer programs thus have no trouble citing reasons why some of these programs should be scaled back, or even eliminated. We believe the following issues will continue to concern Chinese leaders over the next few years. [redacted]

Inflation. We believe that inflation is the principal consumer issue facing China in the 1980s. Our calculations show that inflation during 1979-81 wiped out over one-third of urban and one-fifth of rural income gains, and inflationary pressures remain strong. Public sensitivity in China to price hikes runs high, particularly among those old enough to have vivid memories of the hyperinflation in the late 1940s. [redacted]

The leadership is concerned that persistent inflation could lead to public protests—especially in the cities—if unchecked. This concern rests at least in part on the events of December 1981 when consumers reacted to rumors of impending retail price hikes by engaging in widespread panic buying. According to provincial broadcasts, panic buying of staple foodstuffs spread so quickly that within two days Beijing issued a directive that characterized panic purchasing as “detrimental to political stability” and demanded that local officials take immediate action. Concurrently, at meetings of the Fifth National People’s Congress, several delegates expressed dismay over possible new price hikes. [redacted]

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Whenever possible, Beijing has increased subsidy payments rather than boost retail prices. Having decided to increase peasant incomes by raising the procurement prices paid for farm products, the leadership in early 1979 increased subsidy payments to the purchasing agencies. When forced to raise some retail prices for foodstuffs in late 1979, the government started paying an extra 5 yuan per month to

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urban workers as a food subsidy. According to official data, outlays for price and food subsidies in 1981 exceeded 36 billion yuan—roughly equivalent to one-third of state budget expenditures and perhaps 5 percent of GNP. The drain on revenues created by the subsidy program helped produce the largest budget deficit in the history of the People's Republic of China in 1979 and further deficits in 1980 and 1981. The government financed these deficits in part by issuing currency, which added to inflationary pressures already present in the economy. [redacted]

Beijing has responded to the inflation challenge by ordering a freeze on most retail prices. Enforcing this freeze, however, poses a major problem for the government with its inefficient and understaffed price inspection teams. The leadership is also trying to soak up excess currency in circulation and imposing restrictions on bonuses. Annual bonus payments are to be limited to the equivalent of no more than two months' basic wages; but evasion of this stricture is commonplace. [redacted]

Unemployment. The slower economic growth and stronger emphasis on cutting costs and improving productivity now forecast for the remainder of the 1980s will make it more difficult for Beijing to create new jobs at rates comparable to those of the past few years. At the same time, the number of available new entrants to the urban labor force will be growing rapidly. We believe that Beijing will be hard pressed to keep unemployment from rising and consequently will find it even more difficult to maintain acceptable growth in real incomes. [redacted]

Wage Reform. Reforms in China's wage system—virtually unchanged since the 1950s—are vital to improvements in labor productivity. Wage reform would also help Beijing control bonus payments (and ease inflationary pressures), which in the absence of regular wage increases and promotions have become the primary source of income gains for workers. We believe that in the absence of wage reform, labor productivity will remain sluggish. Efforts are under way to tighten the link between bonuses and productivity, but judging from China's experience thus far, these efforts are likely to falter. [redacted]

Agricultural Procurement Prices. While further increases in the prices paid by the government for farm products are unlikely in the early 1980s, the issue will almost certainly remain alive and a source of controversy among the leadership. At present, the consensus in Beijing appears to be that another round of price hikes on the order of those in 1979 would aggravate an already serious fiscal situation. Still, some officials are arguing that, because peasant living standards and productivity are so low, additional agricultural price hikes are necessary. On balance, we believe that pressures on the budget and complaints that Beijing is favoring peasants at the expense of urban workers make price hikes politically untenable in the near future. [redacted]

Scarcity of Consumer Goods. Shortages are a dominant fact of life for China's consumers; in many instances they are more important determinants of consumption patterns than are consumer preferences or incomes. And shortages often are not simply a result of the lack of raw materials or the inability to manufacture particular consumer goods. Frequently they are due to quirks in the system itself—to irrational prices, peculiarities in the incentive system, or simply organizational barriers. [redacted]

Some of these factors are illustrated by a survey conducted in the large industrial city of Shenyang in China's northeast, where this past summer 10 percent of retail goods in department stores were out of stock. In 18 of the city's department stores, 453 kinds of consumer goods were out of stock. Among these, 176 kinds, or 38.9 percent, were textile products. Woolen blankets have been unavailable for "quite a few years;" cotton ones for two years. Other unavailable goods were mostly small articles. [redacted]

The department stores cited several reasons for the shortages:

- Factories did not want to manufacture goods that bring in low profits.

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- Wholesale departments mixed slow-selling goods with those in high demand, and they refused to break up large lots. In both cases, retailers would not buy for fear of overstocking, and this led to the unavailability of such goods as sheets, pillow cases, and children's blankets.
- Shops would not sell goods that earned little profit, therefore, small articles such as plastic buttons were hard to find.

According to the Ministry of Commerce, these problems exist throughout urban China. [redacted]

Shortages are particularly acute in rural areas. A recent article in the journal *Economic Research* illustrated the severity of this problem, especially with regard to consumer durables. A survey of one county showed that supply as a percentage of demand ranged from a low of zero for small electric fans to a high of 44.3 percent for high-grade apparel. These data probably are not representative of the situation in all of rural China, but they illustrate well a major difficulty facing Beijing: large increases in income unmatched by supplies of goods. [redacted]

Entrepreneurship. Expressions of private and collective entrepreneurship, while welcomed by liberal elements in China's new leadership, are mistrusted by others, particularly lower level cadre. An enlarged private/collective sector in China would create additional jobs for unemployed urban youth and peasants and facilitate the expansion of neglected services, such as barbershops and restaurants, which are especially suitable for small-scale private or collective operation. [redacted]

Despite these obvious economic advantages, there are signs that local governmental restrictions are suffocating entrepreneurial activity in many areas. The US consulate has reported that in the southern city of Guangzhou, for example, many private businesses have closed down in recent months as a result of excessive registration fees and overregulation. In addition, private businessmen complain that they must compete with state enterprises for supplies and fuel and are frequently forced to locate their businesses in

undesirable parts of town. The lesson of Guangzhou for the leadership in Beijing is that considerable local leadership resistance to private or collective entrepreneurship must be overcome before those forms of economic organization can become significant sources of economic stimulus. [redacted]

Prospects: Benign Neglect?

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There are signs that the leadership is easing up on its proconsumer policies and paying more attention to investment needs. Investment spending in 1982 is back up, after last year's cuts (which fell short of intended reductions). Reflecting this, heavy industrial growth has rebounded. And there are signs that military spending may receive a boost. Speakers at the 12th Party Congress in September promised continued stress on improvements in living standards, but in the next breath said that income gains must be smaller than gains in productivity. [redacted]

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The policy that seems to be emerging is essentially the policy that prevailed in the 1950s and 1960s until it was undermined by leftist influences: small but steady increases in personal incomes accompanied by increases in government spending on public services and housing—all tied closely to gains in productivity. For some time, productivity has stagnated. If Beijing is unable to resolve the productivity conundrum and must reduce consumption growth below the rates now anticipated, there is a very real possibility that later in the 1980s the government will face both a deeply discontented population and an economy capable of only slow growth—resulting in pressures and opportunities for changes in policies and policymakers. [redacted]

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Beijing's primary objectives remain military strength and basic economic self-sufficiency; and we believe that the leadership believes any gains in living standards above some minimal level will siphon off resources and slow the drive to reach these objectives. The new economic development strategy adopted in late 1978, with its emphasis on efficiency, necessarily assigns a higher priority to consumer interests and to industries producing consumer goods—through requirements for stronger incentives and exports. But

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the present view of the Chinese leadership appears to be that greater spending on current and future consumption reduces the resources that can be channeled into those industries that are basic to economic and military strength. As the Chinese succeed in placating consumers and redressing the imbalances in their economy, this view will grow stonger and will probably predominate for some time to come. For the population at large, this means that, at best, living conditions will slowly and steadily improve. It also means that consumer programs will be accorded a low priority, and in a crunch will be sacrificed for higher priority goals.

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Appendix A

Urban and Rural Consumption Since 1978

Urban Consumers

Income Growth. While money incomes grew by an annual average rate of 11.9 percent during the 1979-81 period in urban areas, real incomes grew at a substantially lower 7.5-percent yearly rate (table A-1). Inflation sharply reduced gains in real income during 1979-81—the official urban cost-of-living index shows a total increase of 12.9 percent for the period. A rapidly expanding money supply, widespread shortages of consumer goods, and strong consumer demand—all contributed to the inflationary surge.

Other data suggest slower growth.⁷ More important, real incomes grew more slowly with each passing year. From a high of 12.3 percent in the base year of 1978, real income growth declined slightly in 1979 and again in 1980; then in 1981 growth was only 1.3 percent. Real wages actually declined last year; had not a larger percentage of family members found employment, per capita real income would have fallen.

Income Distribution. In its 1981 survey of the Chinese economy, the World Bank found an “extraordinarily” low degree of urban inequality in comparison with other countries. A survey taken by the Chinese in early 1980 implies that the poorest 40 percent of China’s urban population receive about 30 percent of total urban income, that the richest 20 percent receive about 28 percent, and that the richest 10 percent receive about 16 percent. The Bank economists attribute this degree of equality basically to three factors. First, there is little private property income (rents, dividends, and profits), which tends to be very unequally distributed in other countries. Second, there is little income from self-employment, which in other

countries also has exhibited a high degree of inequality. Finally, wages and salaries are comparatively equal, primarily because the relative pay of managerial, professional, and technical employees is much lower than in most other developing countries.

China is similar to other developing countries in one important respect: differences in household per capita income are closely related to differences in the percentage of family members employed. Thus, while the difference between the richest and poorest households in earnings per worker is only 9 yuan, the gap in household per capita incomes is 46 yuan. The employment rates⁸ for households in the poorest and richest categories are 25 percent and 85 percent. To a considerable extent these differences are due to variations in the age and sex composition of households, but the differences are also partly explained by the existence of several million unemployed young people.

Despite the rapid growth of incomes during the past several years, we believe that income distribution has remained relatively unchanged. Developments, which under other circumstances would have widened earnings gaps, have been offset by other factors. For example, the relatively high profitability of light industry could have led to rapid bonus and wage growth in that sector, but the addition of new, low-paid workers to the work force has restrained the growth of the average wage. Also, the institutions responsible for allocating bonuses have distributed them in an egalitarian way, diminishing any possibilities that bonus payments might have contributed to a less equal distribution of income.

Some groups, however, by virtue of their occupations have either been ineligible for bonus payments or unable to earn very large bonuses. Teachers, government employees, and health personnel are among this

⁷ For a variety of reasons, we believe official price indexes understate the rate of inflation. Data on commodity consumption (table A-2) seem to indicate real income growth lower than the 7.5-percent annual average derived by using the official cost-of-living index for urban workers. Per capita consumption of three of the four nondurables shown in table A-2 grew by less than 7.5 percent annually during the period 1979-81; as did per capita consumption of two of the four most popular durables.

⁸ Number of workers per household divided by total household members.

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Table A-1
China: Urban Income, Per Capita

	1978	1979	1980	1981	Average Annual Growth, 1979-81 (percent)
Income per capita (<i>current yuan</i>)	360.9	409.7	486.3	506.0	11.9
Percent change	9.1	13.5	18.7	4.1	
Cost of living index (1978 = 100)	100.0	101.7	109.9	112.9	4.1
Real income per capita (1978 <i>yuan</i>)	360.9	402.8	442.5	448.2	7.5
Percent change	12.3	11.6	9.8	1.3	

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Table A-2
China: Commodity Consumption by Urban Residents, Selected Items

Per Capita Consumption of Nondurable Goods	1978	1981	Average Annual Growth, 1979-81 (percent)		
Foodgrains (<i>kilograms</i>)	205.5	216.0	1.7		
Pork (<i>kilograms</i>)	13.5	16.5	6.9		
Edible oils (<i>kilograms</i>)	4.0	6.0	14.5		
Cotton cloth (<i>square meters</i>)	12.8	15.2	5.9		
Household Stocks of Consumer Durables (<i>units per 100 households</i>)	1978	1979	1980	1981	Average Annual Growth, 1979-81 (percent)
Bicycles	110	120	127	125	4.3
Sewing machines	58	59	66	70	6.5
Wristwatches	189	208	224	241	8.4
Radios	62	75	85	100	17.3
Televisions	13	17	32	58	61.4

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Table A-3
China: Urban Savings Deposits

	1978	1979	1980	1981	Average Annual Growth, 1979-81 (Percent)
Personal savings deposits (<i>billion current yuan</i>)	15.56	20.26	28.25	35.38	31.5
Percent change	15.90	30.20	39.40	25.20	

group, and their real incomes have slipped relative to people in other occupations. Beijing finally responded to their complaints by raising wages for these groups last year.

Perhaps most important among the factors preserving the existing income distribution has been the growth of employment. By encouraging early retirement among parents and promoting the establishment of collective and individual enterprises, Beijing has accelerated the growth of job opportunities for the large number of unemployed young people. Partly as a result, the overall urban employment rate rose from 48.6 percent in 1978 to 56.4 percent in 1981—a substantial gain.

Surge in Savings. Official statistics show that since 1978 personal savings deposits in urban areas have grown at an average annual rate of nearly 32 percent (table A-3); and the share of urban incomes deposited in savings accounts has almost quadrupled (from 2.2 percent in 1978 to 7.9 percent in 1981). In 1979, 54 percent of each additional yuan of income went into savings. Increased supplies of consumer goods during 1980-81, along with rising prices, caused savings from new income to fall, but savings still remain very high.

Changing Patterns of Consumption. Patterns of consumption in urban areas—the result of consumer preferences, prices, and money incomes—are distorted in China by supply shortages and consumer subsidies. Shortages prevent consumers from buying the amounts and types of goods they would prefer, while subsidies tend to encourage greater-than-normal consumption of subsidized goods. Consumer surveys taken by the State Statistical Bureau show that per capita urban expenditures grew by a total of 46.8 percent during 1979-81 (table A-4). Consumers spent relatively more on goods, less on services. Of the developments evident in table A-4, the relatively small decline in the share of spending on food and the sharp increases in spending on clothing and daily articles (miscellaneous household items and consumer durables) are the most significant.

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By far, food remains the most important budget item, accounting for more than one-half of the average family budget. Although not shown in the table, we believe that the composition of foodstuffs purchased probably have changed since 1978. Consumers now probably purchase relatively more nonstaple foodstuffs (especially vegetables and fruits) and luxury food items (pastries, liquors) than in the past; and they probably eat out more frequently.

Spending on the next largest categories—clothing and daily articles—now accounts for nearly one-fourth of the family budget. Per capita spending on clothing has risen by almost 60 percent since 1978, boosting its share of total purchases from 13.6 percent in 1978 to 14.8 percent in 1981. Spending on daily articles grew by 67 percent, raising the share of spending in that category from 8.4 percent in 1978 to 9.6 percent in 1981. Purchases of durable goods accounted for much of this rise. Consumer durables production has boomed, reducing—but not eliminating—shortages. Survey data on household stocks of durables (table A-2) show significant growth, particularly in radios and

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Table A-4
China: Urban Consumption Patterns

	Current Yuan		Percent Growth	Percent of Total	
	1978	1981		1978	1981
Per capita expenditures	311.20	456.84	46.8	100.0	100.0
Commodities	279.56	420.36	50.4	89.8	92.0
Foodstuffs	178.88	258.84	44.7	57.5	56.6
Clothing	42.25	67.56	59.9	13.6	14.8
Daily articles	26.15	43.68	67	8.4	9.6
Cultural and recreational articles	12.96	25.92	100	4.2	5.7
Fuel	8.40	8.88	5.7	2.7	1.9
Books, newspapers, and magazines	3.12	4.32	38.5	1.0	0.9
Medicine and medical items	3.12	2.76	-11.5	1.0	0.6
Other	4.68	8.40	79.5	1.5	1.8
Services	31.64	36.48	15.3	10.2	8.0

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television sets. Although their output is extremely limited, washing machines and refrigerators have become popular items among high-income consumers.

Occasionally media reports discuss consumer trends that are not apparent in the aggregate data on consumption patterns. Beijing Municipality authorities have noted a number of developments affecting their garment industry:

- While sales of manufactured garments in big department stores were down by 30 percent this summer, the city's tailor shops had more work than they could handle. This was attributed to consumer desires for something new, something "with originality."
- Silk is in heavy demand. It, along with jersey, light woolen fabrics, and cream-colored polyesters, is selling fast. Flowery dresses are growing in popularity, but better fitting and more colorful slacks remain the favorite form of dress.
- The number of safari jackets is increasing, and men are buying more boldly patterned shirts.

Rural Consumers

Income Growth. Since 1978 money incomes of peasants have risen at an average annual rate of almost 19 percent (table A-5). After discounting for inflation, using the official price index, gains have averaged over 14 percent annually in real terms. During the past two years, however, because of inflation, the rate of increase in real incomes dropped by almost one-third from the rate recorded during 1978-79. As noted above, we believe that official price indexes understate inflation and therefore overstate gains in real income. Sketchy data on commodity consumption suggest that consumption (and real income) gains have averaged around 10 percent annually during 1978-81 (table A-6), several percentage points lower than implied by official Chinese data.

Income Distribution. Despite obvious gains, the living standards of most Chinese peasants are still very low. Data on commodity consumption and household stocks of consumer durables in table A-6 portray an economic group that enjoys a barely adequate diet

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Table A-5
China: Rural Income, Per Capita

	1978	1979	1980	1981	Average Annual Growth, 1979-81 (Percent)
Income per capita (<i>current yuan</i>)	133.6	160.2	191.0	223.0	18.6
Percent change	14.2	19.9	19.2	16.8	
Rural price index (<i>1978=100</i>)	100.0	102.0	109.1	112.0	3.8
Real income per capita (<i>1978 yuan</i>)	133.6	157.1	175.0	199.1	14.2
Percent change	17.3	17.6	11.4	13.8	

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Table A-6
China: Commodity Consumption by Rural Residents, Selected Items

Per Capita Consumption of Nondurable Goods	1978	1979	1981	Percent Change, 1979
Foodgrains (<i>kilograms</i>)	248.0	257.0	256.2	1.1 ^a
Pork (<i>kilograms</i>)	5.9	6.5	NA	10.2
Edible oils (<i>kilograms</i>)	2.1	2.4	NA	14.3
Sugar (<i>kilograms</i>)	0.7	0.8	NA	14.3
Cotton cloth (<i>square meters</i>)	5.6	5.2	NA	-7.1
Household Stocks of Consumer Durables (<i>units per 100 households</i>)	1977	1978	1981	Average Annual Growth, 1978-81 (Percent)
Bicycles	31	36	44	9.1
Sewing machines	20	23	28	8.8
Wristwatches	52	55	55	1.4
Radios	18	26	42	23.6

^a Average annual growth, 1979-81.

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Table A-7
China: Rural Savings Deposits

	1978	1979	1980	1981	Average Annual Growth, 1979-81 (Percent)
Rural savings deposits (billion current yuan)	5.64	7.84	11.7	17.0	44.5
Percent change	20.8	39.0	49.2	45.3	

and little in the way of household wealth. Income inequalities among rural residents remain large. Survey data indicate that three-fourths of China's peasants earned less than 150 yuan in 1980, when average peasant earnings were 191 yuan. With such a wide variation in income, the statistically average peasant is hard to find.

Savings Up Sharply. Nationally, rural savings have tripled since 1978 (table A-7), and the portion of income going into savings has doubled, rising from slightly less than 1 percent in 1978 to about 2 percent in 1981. Peasants have reacted predictably; for example, in some areas they have declined to produce additional hogs for market because there is nothing to buy with the extra earnings.

Changing Patterns of Consumption. Survey data issued by the State Statistical Bureau show that the shares of rural spending on food, clothing, fuels, and cultural activities and services declined between 1978 and 1981, while the shares spent on housing and miscellaneous and household articles (daily articles) rose markedly (table A-8). To a considerable degree, the large decline in the share for foods (from almost 68 percent to less than 60 percent) reflects the lack of a variety of more desirable foodstuffs, if not outright shortages of basic items. We attribute the declines in spending for fuels, cultural activities, and services to continued shortages in supplies.

The share of spending going to housing should rise as incomes grow, but the reported increase seems larger than would be expected from gains in incomes alone and probably reflects a strong pent-up demand. According to the State Statistical Bureau, 12 percent of all rural households built new houses in 1981. Rural households averaged 4.3 rooms per household, 17 percent more than in 1978, and floorspace averaged 10.2 square meters per capita—over twice the average for city dwellers.

That consumer durables are included in daily articles helps explain why spending in that category grew by 156 percent between 1978 and 1981. As in the case of housing, there is also pent-up demand. The daily articles category also contains a wide variety of common household items that are now, with the rapid expansion of light industry, much more readily available.

In publicizing improved living standards, Beijing has noted some trends not apparent in the aggregate data:

- Peasants have started to abandon homemade and handmade clothing and shoes, now preferring factory-made goods, "which they feel are better in appearance;" and there has been a gradual shift in purchases toward better quality clothing.
- Farmers prefer brand-name goods, just as city residents do; but relatively inexpensive wristwatches, for example, are also in great demand.
- Small items such as pans, cauldrons, bowls, chopsticks, and straw and palm fiber products are selling well.
- Although there is a big demand for children's clothing, the demand for toys is relatively low in rural areas.

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Table A-8
China: Rural Consumption Patterns

	Current Yuan		Percent Growth	Percent of Total	
	1978	1981		1978	1981
Per capita expenditures	116.08	190.81	64.4	100	100
Commodities	112.92	186.17	64.9	97.3	97.6
Foodstuffs	78.61	113.83	44.8	67.7	59.7
Staple	51.32	61.07	19.0	44.2	32.0
Nonstaple	24.67	41.50	68.2	21.2	21.7
Other	2.62	11.26	330.0	2.2	5.9
Clothing	14.74	23.57	59.9	12.7	12.3
Fuels	8.28	10.59	27.9	7.1	5.6
Housing	3.67	18.67	409.0	3.2	9.8
Daily articles	7.62	19.51	156.0	6.6	10.2
Cultural activities and services	3.16	4.64	46.8	2.7	2.4

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Appendix B

Statistical Sources

This assessment is based primarily on numerous bits of information from a variety of official Chinese sources. Whenever possible we have used data released by the State Statistical Bureau, China's principal statistics-gathering agency. Because China's statistical apparatus is understaffed and its personnel largely undertrained, Chinese economic data are frequently contradictory, incomplete, or simply inaccurate. Some of our estimates—for example, those on personal incomes—are subject to a greater margin of error than others. As the Chinese release further data, those data may differ slightly from our estimates, but the major judgments presented in this paper should not be affected.



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