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Armin Bohnet and Günter Jaehne\*

## The Private Sector in the Soviet Union and China

*The private sector in the fields of agriculture, wholesaling and retailing, craft trades and light industry, already well-developed in the People's Republic of China and a number of Eastern European countries, is now to be given a more significant role in the Soviet Union. Moscow's economic reformers believe this will contribute to an improved standard of living, as has been the case in China during the economic reform which has now been underway since 1978/79. It is therefore tempting to compare the concepts underlying the reforms and the course they have taken in the two socialist "super-powers", the key question being whether the Russians will achieve similar successes with their reforms, once all the teething troubles are overcome, to those of the Chinese.*

**B**ecause the stage reached by the Soviet Union, whether in discussing reforms or in creating the appropriate legal, organizational and economic conditions for a liberalization of the country's economy, is still well behind that of equivalent developments in China it is difficult to compare the two countries simultaneously. This article will therefore examine the Soviet Union and People's Republic of China (PRC) consecutively.

### USSR: Rediscovery of Private Economic Activity

For many decades, both the Party and the government in the Soviet Union maintained a hostile underlying attitude towards any kind of economic activity not directly controlled by state bodies in the manner of the socialist sector. The only exceptions to this occurred in agriculture, where more than one quarter of total production in value terms has long been attributable to sideline activities carried out by farmers working in agricultural cooperatives (*kolchos*) or on state-managed estates (*sovchos*), but has been tolerated politically. This attitude has changed during the course of Gorbachev's economic reforms. Apart from the shift in economic decision-making powers within state enterprises away from party and bureaucratic officials in favour of management structures within the enterprises themselves and the movement towards opening up the Soviet economy to the rest of the world,

another outstanding feature of the reform of the Soviet economic order is the readmission of private economic activity, or cooperative activity based on private initiative.

The following are the chief positive effects politicians and academics in the Soviet Union expect to result from an expansion in private economic activity:<sup>1</sup>

- an increase in the quantity and variety of consumer goods and services available to the population,
- more effective control over the substantial amount of activity in the black economy, or the return to legality of such activity,
- gaining access to pensioners, housewives and students as a source of labour,
- an increase in the official registration of after-hours working,
- the creation of jobs for labour shed as a result of rationalization measures in state enterprises,
- increases in productivity and output of the state enterprises in response to competitive pressure from the private sector,
- an increase in government income from taxes and levies paid by private individuals.

<sup>1</sup> For a similar account, cf. Stanislaw Pomorski: Privatization of the Soviet Economy under Gorbachev I: Notes on the 1986 Law on Individual Enterprise, Berkeley-Duke Occasional Papers on the Second Economy in the USSR, No. 13, Durham, N.C., October 1988, p. 5.

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Doubts as to whether the desired results will ultimately occur are not infrequently expressed by Western observers of the Soviet Union. Among the reasons given for this are that any measures taken to change the system in the past have mainly been transitory in nature and, so such observers say, have only been taken during times of great pressure to produce results on the economic front. The period of the New Economic Policy in the 1920s can be cited as an example. Weighing against this view are a number of indications that, at least as far as the political attitude to individual or cooperative private initiatives is concerned, fundamental corrective changes will indeed be made. We shall go into this in more detail below.

### Legal Basis

Various measures have been taken to reinforce private, i.e. non-state-controlled, economic activity.

The *Law on Individual Enterprise* was enacted on 19th November, 1986 and came into force on 1st May, 1987. This considerably extends the list of permissible individual activities compared with previous regulations. The law actually distinguishes between those activities which are and those which are not allowed. The itemized list names

- 9 areas of activity classifiable as craft trades,
- 14 activities in the service and repair fields, and
- 6 activities in the social and cultural sphere.<sup>2</sup>

Nevertheless, there remain a large number of activities for which the legal position is uncertain. There is also the added difficulty that an official licence needs to be obtained before any private economic activity can be carried out.

The *Law on Cooperatives* came into force on 1st July, 1988.<sup>3</sup> The first provision of this law is that, in contrast to the individual enterprise law, a special licence is not necessary in order to establish a cooperative. Furthermore cooperatives are placed fundamentally on an equal footing with state enterprises. Among the possibilities provided for is the establishment of cooperatives as subsidiary operations of state enterprises. No one belonging to a state enterprise can be prevented from participating in a cooperative and also working there. This is not permissible to date in the case of individual ventures. The cooperatives also have wide-ranging rights when it comes to determining their field of activity, and the volume and structure of production. Though it is possible in principle for them to work under contract to the state, they are not compelled to do so. The state is only permitted to get involved in the

setting of prices by cooperatives in the event that they use or deal in materials bought from the state sector at fixed prices. The banks responsible for this field are required to provide their loans on special terms to newly-founded cooperatives but on the other hand must be strict in ensuring that repayment commitments are honoured. Even foreign trade is also possible under these regulations, with a large degree of liberalization allowing joint ventures to be established, for example.

Gorbachev went on, at the Plenary Sessions of the Communist Party Central Committee in July 1987 and June 1988, to propose that a *Law on the Hire or Leasing of Means of Production* by industrial or agricultural cooperatives should be drawn up.<sup>4</sup> Leasing agreements arranged under this law ought to be long-term, running for perhaps 25 to 30 years, or even 50 years in agriculture. The reservation still being expressed by opponents of this scheme, which has not yet become law, is that it amounts to a re-privatization by stealth of substantial areas of economic activity, especially in the agricultural sphere. Its proponents point out that such an arrangement would increase production where bottlenecks have existed and could lower production costs.

A final factor which may prove extremely significant is that the Law on Cooperatives includes special provisions granting kolchos farms, which up to now have largely been closely tied into state production and distribution plans, the right to govern their own production and to market it as they see fit, either to state trading organizations or to other wholesale or retail buyers, or indeed to final consumers. Given that the kolchos farms generate more than one third of the country's agricultural production, these stipulations represent a thoroughly revolutionary innovation more significant even than the introduction of the New Economic Policy in the 1920s.

### Quantitative Importance and Structure

Reliable data on private economic activity in the Soviet Union were largely non-existent until the early 1980s. It is only in recent years that the authorities' restrictive information policy has been relaxed somewhat. Even today, however, the statistics which are

<sup>2</sup> Cf. also the extensive list provided in Libor Rousek: Private Enterprise in Soviet Political Debates, in: Soviet Studies, Vol. XL, No. 1, January 1988, pp. 46-63 (p. 57 f.).

<sup>3</sup> For a comprehensive account, cf. Ulrich Weissenburger: Das neue sowjetische Genossenschaftsgesetz: Ziele und Regelungen, in: Osteuropa-Wirtschaft, Vol. 33, No. 4, 1988, pp. 327 ff.

<sup>4</sup> Cf. Stanislaw Pomorski, op. cit., p. 3 and footnote 15.

published are unsystematic both in their timespan and content, so only limited comparisons are possible.

Table 1 gives an impression of the number of businesses and their employees in selected areas of the economy, categorized by type of ownership. What is especially striking is the large number of people working in the black economy – approximately 20 million people – and the many agricultural sidelines. In contrast to this, the 787,000 employed in voluntary cooperatives and the 200-300,000 working in individual enterprises only add up to something under 1% of the total working population, which is still a minute proportion even today.

Table 2 shows the contribution made to gross agricultural production by the kolchos or sovkhos farms and by sideline businesses. The sideline operations by the members and workers of collective farms account for a remarkably high proportion of overall production. The statistics are more significant still if one considers that the land area used for the sideline businesses is only a very small percentage of the total cultivated area. This suggests that the sidelines are highly productive, or at least that a large proportion of further processing takes place in this sphere.

**Table 1**  
**Types of Enterprise in the USSR**  
**and their Employees**

	Time	Number of enterprises	Number of employees (in 1,000)	Average number of employees
<b>Total</b>	1988	–	129,700	–
Kolchos farms	1988	26,800	12,200	455
Agric. sideline enterprises	1987	43 mill.	–	–
State consumer cooperatives	1986	452,000 <sup>a</sup>	–	–
Voluntary cooperatives (total)	1988	48,500	787	16
of which:				
service sector	1988	17,100	276	16
catering	1988	6,100	51	8
consumer goods production	1988	10,900	205	19
supply of secondary inputs	1988	2,000	27	13
other spheres	1988	12,400	229	18
Individual businesses				
applied for	May 1987	200,000	–	–
approved	May 1987	137,000	–	–
approved	Feb. 1988	300,000	–	–
Black economy	1988	–	17-20,000	–

<sup>a</sup> Retail stores and restaurants belonging to the Central Federation of Consumer Cooperatives.

Source: Ekonomiticheskaya Gazieta, No. 52, 1988, p. 14; and own calculations.

**Table 2**  
**Contributions made by Enterprises under**  
**Different Types of Ownership to Total Output of**  
**Selected Items of Agricultural Produce**  
(in %)

	Year	Kolchos farms	Sovchos farms	Sideline businesses
Agriculture overall	1987	35	39	26
Cereals	1985	51	47	2
Milk	1985	48	22	30
Eggs	1985	24	47	29
Meat	1985	41	29	30
Potatoes	1985	32	7	61
Vegetables	1985	38	32	30

Sources: Narodnoe Khozyaistvo SSSR, Moscow 1986, p. 186; G. Shmelev: Personal Subsidiary Farming under Socialism, Moscow 1986, p. 59 ff.; own calculations.

In contrast to the above, the share of the market to final consumers occupied by voluntary cooperatives in selected areas is a very meagre one. The shares for 1987 cited by Nikolai Ryzhkov, the Prime Minister, to the Supreme Soviet – 0.5 % in services, 0.3 % in hotels and catering, and 0.03 % in the entire consumer goods area – clearly show that even if the private sector were to increase its share of activity ten times over, the current situation in which state-owned or state-cooperative trading and service enterprises dominate the scene could not be fundamentally changed. Although there is no comparable information available on the output of individual private enterprise in services, the craft trades or the social and cultural sphere, it is safe to assume that it only plays any greater part in one or two selected fields (tailoring, for example) but makes an almost negligible contribution to the total supply of goods and services to the population.

### Differing Chances of Success

The various measures designed to encourage initiative outside the socialist sector need to be judged differently in terms of their chances of success.

The *Law on Individual Enterprise*, at best, amounts to a half-hearted legislative measure to promote legal private economic activity. Its effectiveness is limited by the following restrictive provisions:

Self-employed businesses are only permitted to employ members of the proprietor's own family who live in the same household. The employment of any other persons is expressly forbidden.

Any persons employed in the socialist sector may only do work for their individual enterprises after completion of their official working hours.

□ Quite a number of activities are still prohibited for those operating their own businesses. Although activities not expressly prohibited may in principle be carried out, there are nevertheless a multitude of bureaucratic hurdles to overcome.

□ Whatever private economic activity is carried out, application must be made to the responsible authorities for a licence.

Compared with the above, the *Law on Cooperatives* is drafted markedly less restrictively:

□ It allows any number of employees to be hired.

□ It stipulates only that the establishment of a cooperative must be officially made known; it is not necessary for a licence to be granted by state authorities.

□ Cooperatives are largely free to operate in whatever field they choose.

### Disillusioning Results

Despite the large degree of autonomy granted to cooperatives by the law, the great expectations which had been made have not even been fulfilled in this area. There are evidently other reasons why the establishment of cooperatives and individual businesses alike has been disappointingly sluggish.

In our view, the most important of these reasons are:

□ The amount of illegal economic activity, in the black economy. There are many cases where this would still appear to be a superior alternative to formally establishing individual enterprises or cooperatives. One difficulty which arises, for example, is that whenever an individual business or voluntary cooperative purchases any single item priced above 10,000 roubles, it has to provide evidence of where it obtained the necessary funds. This stipulation, which is part of the *Law on Non-earned Income*, is regarded by many potential entrepreneurs as an instrument for keeping watch over private economic activities, or indeed positively obstructing them. To add to that, income from individual private enterprises is still taxed at a noticeably higher rate<sup>5</sup> than earned income from the socialist sector, quite apart from the taxes which are evaded altogether in the black economy. The initial intention was to tax income

paid out by cooperatives to their members at a similarly high rate to income from private enterprises. After a great deal of controversy, a commission of experts is now drafting a new proposal on taxation rates for such incomes, which will presumably eventually mean a much lower burden than originally intended. In the interim period, personal incomes of cooperative members are being taxed at the same rates which apply to workers or salaried staff.<sup>6</sup>

□ Private enterprises and cooperatives frequently still have to rely on the socialist sector to obtain supplies of important raw materials and other inputs. Especially when it comes to distributing scarce items, they are frequently placed at a disadvantage or even excluded. This results in considerable insecurity in maintaining output.

□ Individual economic initiatives also run into problems because middle and lower levels of the bureaucracy are resisting the increasing importance of autonomously trading private businesses. Among the practices they resort to are petty chicanery when licences are applied for, the levying of additional charges and bureaucratic obstruction of production processes.

□ Moreover, distrust of and contempt for private enterprise are still common among the general public. Even opinion polls stating quite positive views should not be allowed to create a false impression in this regard. Beyond that, after almost 70 years of state ownership and central planning, it is easier to command obedience and subjugation than to promote entrepreneurial initiative.

□ A final factor which can be assumed to be extremely significant is that the public is not really able to place its confidence in the freedoms and decision-making powers available to it. The question which is continually asked is: Who can provide us with a guarantee that the rights we have now been granted won't be taken from us again before long, as has happened several times in the past? The recent press story of a private cooperative being compulsorily closed on the grounds that its three joint proprietors had received excessively high incomes, suggests that these fears are not altogether unjustified. Another event backing that view was a decree issued in December 1988 by the Council of Ministers putting a stop to individual enterprises in numerous branches of the economy although these had only been opened up to such activities a little over a year earlier.

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<sup>5</sup> If, for example, the annual income earned from the business is between 3,001 and 4,000 roubles, this is taxed at 332 roubles + 20 % of the excess over 3,000 roubles. Income of 6,001 roubles upwards is taxed at the top rate of 1,332 roubles + 65 % of the excess over 6,000. On this, cf. Theodor Schweisfurth: Die Komplementarität persönlichen Nutzens und gesellschaftlichen Interesses, in: Osteuropa-Recht, Vol. 34, No. 1, March 1988, pp. 1-18 (p. 16, footnote 75).

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<sup>6</sup> Cf. the more detailed account given by Ulrich Weissenburger, op. cit., p. 331.

If the results achieved by the new economic policies for the private sector are compared with the expectations voiced from official quarters from an expansion of such activity, the conclusion really is a sobering one. There has hardly been any improvement in the supply of consumer goods and services; the black economy continues to flourish; hardly any labour has been transferred from the state to the private or cooperative sector; finally, no adequate reduction in distrust or anxiety has been achieved, and initiative has only been aroused to a limited extent.

#### PR China: Renaissance of the Private Economy

Since 1978/79, the private sector in China has enjoyed an upsurge both in absolute numbers and in its overall significance which far outstrips the forecasts made for it. Originally intended as an experiment, the privatization policy is now also regarded as having been a success by the Party, which is pursuing it further. The predominant view among reform politicians in Peking is that China's economic upswing would not have been as dynamic as it was during the last few years if it had not been for the activities of private businesspeople and entrepreneurs. Whereas there were hardly more than a

hundred thousand tiny private businesses when the reforms began, the number of private producers today runs into many millions.

The above development process results from a thoroughgoing correction of the Chinese Communist Party's Marxist policies of economics and property ownership in the last ten years under Deng Xiaoping's leadership. Until this period of reform began, the Party had followed the Soviet Union's example by suppressing virtually every form of private economic activity. Whilst in 1953, four years after the PRC's foundation, there were still approximately 20 million private businesses in industry, transport and services, a rigorous campaign of collectivization and nationalization ensured that these had almost all been expropriated by 1956. Any private businesses which remained in existence or which had been set up illegally were finally nationalized during the Cultural Revolution. According to Chinese sources, the number of privately operated, very small businesses which survived the Cultural Revolution was about 140,000, and the number

<sup>7</sup> Ma Jisen: A General Survey of the Resurgence of the Private Sector of China's Economy, in: Social Science in China, No. 3, 1988, p.80.

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Stefan Brand

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At first glance the availability of resources seems to have nothing but advantages for the development of a country; the scarcity of capital is ameliorated and the financing of essential imports is taken care of. Nevertheless, there are numerous countries which, in spite of the existence of significant resources, have not succeeded in translating these into economic development. This study first ascertains the theoretical grounds determining the success of development policy in countries rich in resources and then confronts them with empirical findings. Finally, recommendations for development policy measures are derived from the analysis.

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of people employed in them about 300,000. In 1976, there were said to be 259 private businesses remaining in Peking.<sup>7</sup>

### The Main Motives

If one sets aside the special positions of Hungary and Yugoslavia, it is the People's Republic of China which has first taken the ideological lead among socialist countries as far as the "new thinking" on the significance and function of the private economy and private property in a socialist economy is concerned. This has made China into an experimental zone for the practical implementation of reform ideas, especially regarding privatized agriculture, which is observed with great interest elsewhere, including in the USSR.

China's new approach to private business has to be understood in connection with its programme of "the four modernizations". The programme's aim is to forge ahead with the development of agriculture, industry, science & technology, and defence; the intention is to increase production and output several times over in each of these fields in order to catch up with developments elsewhere in the world. In order to achieve this aim by the year 2000, the party's intent is to mobilize all forces and groups within society by giving them a material interest in the success of this programme. As the PRC also has the problem that its state enterprises and regulated production cooperatives do not generally work very productively, private economic initiative is intended to give a new impetus.

Having achieved high rates of growth in agricultural production surprisingly quickly once the system of people's communes – which inhibited production – had

been replaced by a system giving business responsibility to farming families, the Party then saw no reason not to also allow private economic activity in the "urban economy".

By 1988, China had 12.6 million enterprises termed as "individual businesses" and 225,000 larger operations known as "private businesses", taking urban and rural areas together but not including the millions of small farmers who produce on a private basis but who cannot be dealt with here due to lack of space.

### Two Types of Private Enterprise

The criteria by which the types of private enterprise are distinguished are the number of persons working in the business and whether or not it employs outside labour. In the Chinese understanding of the term, the proprietor's family would be actively involved in working for an individual business. Thus the family as a whole lives by the fruits of its own labour. The number of employees in this type of business, including apprentices, may not exceed seven. In 1988, 21.6 million people worked in businesses of this type, giving an average of 1.7 persons per business. These, then are largely one-person operations where each is his/her own boss.

The 225,000 so-called private businesses, of which 115,000 are actually registered as such – 50,000 are entered as township-run enterprises and 60,000 as cooperatives – employ something over 3.6 million people, giving an average of 16 per enterprise. Approximately 2,500 businesses have more than 100 employees and "a small number" even have more than 1,000. Because the proprietors of the businesses concerned exploit employees to "appropriate the value-added", they are defined as "capitalists" by the Chinese Communist Party.

In contrast to the Soviet Union, China now has private businesses operating in almost all branches both of the productive economy and the service industries. The spectrum ranges from raw material extraction (e.g. small mines operated by farmers) via processing industries (e.g. fertilizer manufacture), gold-panning, hotels and restaurants, cinemas, theatres and other entertainment businesses, medical practices (85,000 in 1985), private clinics and pharmacies, private schools or kindergartens (42,000 in 1985 with 500,000 children in all) and banks through to the main areas of wholesale and retail trade and transport. An estimated 20-25 % of the country's total sales of goods are now attributable to private retailers (not including direct sales from farms), and this proportion can be expected to increase still

**Table 3**  
**Some Financial Data on Private**  
**Businesses in the People's Republic of China**

Average number of employees per business	16 persons
Average capital stock at foundation of the business	approx. 50,000 yuan
Average revenues or output per year	150,000 yuan
Average profit (based on approx. half of the private businesses)	more than 10,000 yuan
Rate of profits tax for private businesses	35 %
Rate of income tax on incomes from private businesses	40 %
Compulsory investment requirement	At least 50 % of post-tax profits must be re-invested

further. According to Chinese accounts, private transport services are now responsible for carrying 40% of all passenger or freight movements; however, this figure presumably only applies to local or intra-regional traffic. In the industrial sector, private businesses' share of total output is much smaller at just 1%, though the figure of 3% is occasionally mentioned.<sup>8</sup> It is interesting to note that 80% of the private businesses are located in the countryside, and a large proportion of these are connected to the building trade. This is due, among other factors, to the intense building activity among Chinese farmers, to the widespread tile-manufacturing business in rural areas, and to the large pool of cheap labour available in the villages.

### Widespread Bad Feeling

The party leadership now fully recognizes the economic benefits of private enterprise, is giving encouragement to the sector, and gave it an improved legal basis in 1988 by way of an amendment to the constitution and other legislative provisions. Among the latter are a facility for the proprietorship of a business to be bequeathed to others, for private businesses to enter into joint ventures with foreign companies, and to be able to protest against illegal measures taken by the country's administration. The Ministry of Trade and Industry now includes a supervisory body for the private sector, the "Individual Enterprises Department", and various cities also have "Individual Labourers Associations" which act as a form of professional representative organization for individual businesses. A nationwide, non-state lobbying organization is the "Chamber of the All-Chinese Confederation of Industrialists and Businesspeople" which recently held its 6th delegate conference in Peking.

Nevertheless, given the political experiences and the changes of course they have seen take place during the last few decades, this still does not amount to a lasting guarantee of a good living as far as many of China's private entrepreneurs are concerned. Apart from repressive taxes, arbitrary interference or decision-making by the bureaucracy and occasionally also political defamation, uncertainty as to the party line on the private sector over the longer term is yet another reason why entrepreneurs try to avoid registering their businesses, or else operate them as township-run or cooperative businesses. Furthermore, there are countless cases where not all employees are registered,

and Chinese statistics estimate that 10 million illegal employees could be added to the 25-26 million who have been officially declared.

Public opinion on the private sector is divided. Although a majority of the general public recognizes that life in China has become easier, richer and of a better standard by virtue of the work done by private traders, craftspeople and manufacturers, widespread bad feeling does nevertheless exist, mainly for traditional and ideological reasons. However, this climate is also reinforced by a professional etiquette among traders which leaves something to be desired, and by a dislike of people or types of work thought of as "get-rich-quick". The pronounced price rises in recent years, especially for food and groceries, are often laid at the door of the "profit motive" of private producers and suppliers. The popular description of such people is often that they are "rich but ignorant".

Another aspect of prejudice against private entrepreneurs shows up in the view that most of them have criminal records or are youths from re-education camps, yet this is not true of the traders. The majority of them are in fact pensioners or unemployed youths. Only about 5% of private businesspeople have any form of criminal record.

Despite the above, there are now signs that the younger generation is taking a gradually less ideological and emotional view and is instead prepared to see the matter of private economic activity pragmatically. Recent items in the Chinese press show that qualified employees in state enterprises or cooperatives are now beginning to leave in order to take better paid positions with private firms. Young graduates, in particular, now look for jobs in the private sector as they can earn two or three times what they might be paid in state enterprises, and can also make better use of their knowledge and abilities.

### Future Prospects

Whatever other ideological or political counter-arguments may be raised against the private sector, its achievements to date – even the official view holds it to have the highest economic efficiency and the best operational and financial management of any area in China today – and economic common sense clearly speak for the authors' view that it will continue to attain a growing importance in the PRC in the future. If the party leadership is serious about its own decision to steer the course of a socialist market economy, it inevitably also has to welcome performance-oriented businesses, which in present-day China primarily means private businesses.

<sup>8</sup> According to the latter figures, 80% of all industrial production is attributable to state enterprises, 15% to cooperatives, and 3% to the "individual sector". Cf. China Daily, No. 1993, 15th December, 1987.



There is another argument supporting the view that the private sector will be allowed to survive. This is that the initiatives of private enterprise are indispensable for overcoming the bottlenecks and shortages which increasingly arise as the economy grows. Such initiatives are needed to ensure enough raw materials and other inputs are made available, to put up the funding for new businesses or expansions of existing ones, to improve the nation's financial position and to generate jobs.

Creating a sufficient number of jobs, in particular, may well only be possible in future with the private sector's help, for the Chinese economy is faced with the task of finding work for at least 300 million farmers and farm workers by about the year 2000 as technical progress in agricultural production renders them redundant. On top of that, about another 20 million employees in state enterprises could be made redundant by measures to improve productivity. Finally, there will be an especially large number of school-leavers coming on to the labour market in the years immediately ahead. The Party hopes that some of the newly available labour will be taken up by the establishment of new businesses in the individual sector and the creation of more jobs by private businesses. The hope has been expressed in a journal of the Peking Academy that the current tally of 225,000 private businesses might be increased ten times, raising the numbers employed in them from 3.6 million to 36 million.<sup>9</sup> Another indication that the number of private-sector employees really could increase along such lines is provided by estimates, or at least wishful thinking, from planners in Peking which assume 50 million employees in that sector in the early 1990s.<sup>10</sup>

As well as expanding in branches of the economy where it has already been active, one would also expect the private sector in future to encompass areas from which it has so far been kept away for political reasons. This would include areas which are currently state monopolies such as the vast field of public utilities, or certain parts of the local transport or inter-regional freight transport systems. Also, there will be an increase in the tendency to sell or lease unprofitable state-run or cooperative enterprises to private individuals. Last but not least, growing foreign-trade opportunities can also be expected to open up for private businesses in future, because of their more flexible mode of operation.

It is too early to judge at present just how much private-sector business the Party will tolerate in the long term, yet it is quite certain that that level will be higher than it is today. By way of comparison, the Communist Party in Hungary, where the private sector currently

generates 6% of national income, does not envisage any undue political problems arising if that share were to increase to 25-35%. Why should similar considerations not apply in China?

### **The Soviet Union and China Compared**

The above analysis shows that great importance is attached to expanding the private sector in both the USSR and the PR China. Nevertheless, the conditions under which such broad-ranging private economic activity is required to take place differ greatly between the two countries.

In the first place, neither the course taken by the theoretical discussion nor the legal framework are comparable. Discussion surrounding private-sector expansion in China is conducted for the most part with an undogmatic approach. In the Soviet Union, on the other hand, the exploitation line of argument still plays a considerable part, and this is one of the factors contributing to the fact that paid workers may not be employed by private businesses and that access to a large number of economic activities is prohibited to private individuals.

Then there are truly substantial differences in the quantitative importance of the private-sector economy. Agriculture in China has now already been largely privatized. More than 90% of agricultural production now comes from the large number of small family farms which to all intents and purposes are autonomous as far as their production and distribution decisions are concerned. In the Soviet Union, however, the individual sideline enterprises in the agricultural sector have only been tolerated so far. Even today, their legal position does not have a firm foundation. In the service sector, craft trades and wholesaling or retailing, too, autonomous private enterprises or cooperatives play a far lesser part in the Soviet Union than they do in China.

However, any comparison of the two countries does need to take account of the fact that in the Soviet Union both the theoretical discussion and actual reform resolutions only seriously got under way after Gorbachev had come to office. It would therefore be wrong to rule out the possibility of legislative provisions being brought closer to those already in place in China, and hence of a legal private sector decoupled from the bureaucracy of the state continuing to gain rapidly in significance.

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<sup>9</sup> Ma Jisen, *op. cit.*, p. 83.

<sup>10</sup> Quoted from: *Blick durch die Wirtschaft*, No. 166, 1st September, 1986.