

Background (6/22/84, 3 hrs)

He was a guerilla fighter in Guangdong, recruited in Hong Kong in the late 1940s. After the liberation of Guangdong the Party rewarded him for his revolutionary service by sending him to school to become a cadre. They sent him to the accounting department of South China Univ. for 10 months. After that he was sent to work in the accounting office of the Guangdong provincial government, and in 1952 he was sent to work in the accounting office of a steamship company. In 1956 he was sent to the accounting office of the communications ministry in Peking to study Soviet management methods, especially financial aspects. He took 5 months of classes in Peking, and all his classmates were accountants. In 1957 he was criticized and punished during the Anti-Rightist campaign. He had raised a rather mild criticism of the Party, as they had asked loyal cadres to do. But even though he had the best of possible class backgrounds-- 3 generation worker, worker chushen, fought in the war, and was trained by the party for leadership. He just talked too much during the campaign, he says. Later he was rehabilitated in 1979. He was treated lightly; he was demoted 3 pay grades, and became the director of a small commune factory for 9 months, then was sent to a cadre school. By 1960 he was sent to a factory as a shop director in a plant producing glucose (putao tang). The factory was under the province's party school. It was a service organization under the district (diqu) party organization. There were only 10-20 people working in it. It was set up during the 3 years in order to make sure that party officials had enough to eat. Their products were for party officials alone. He did this for one year.

After that he was transferred to a shipbuilding yard in Zhanjiang that employed about 500 people. He was the head of the accounting dept., in fact but not in name. The kezhang was someone who really didn't know anything about accounting, but he was a party member, unlike the informant. He worked in this position from 1961 to 1970, when he was sent to a May 7 cadre school. There was a lot of violence in his plant then, and it basically closed down for a long period. He was in the cadre school for 3 years. He requested a transfer to another unit in 1973 so he could live with his wife, who worked in Yanjiang. He was assigned to a county level cement factory, state owned, that employed about 200 people. He worked there until he left China with his family in 1979. Before being assigned to the cement plant, but after being released from the cadre school, he worked as a peasant for 6 months, and in a small rural collective factory.

He says the main reason why China is still backward is that they don't follow their own regulations. From the time he left school he was opposed to the Party's management methods because they were backward (this was the gist of his 100 flowers criticism). The regulations are contradicted by reality. The head of the finance department does not have the powers he is supposed to have. If he opposes illegal practices or corruption on the part of the party secretary, he can be accused of political mistakes later on, and can be struggled, called a class enemy. This happened not just during the cultural revolution but through the entire 30 years he was in China.

A second problem: if you want to become an official, you have to listen to officials and tell falsehoods, conceal the true situation. He brings up the example of the Great Leap forward. The problem there was that

the top officials' targets were completely unrealistic, but to insist that they were unrealizable would be to get yourself in trouble. Science was thrown out the door (He gives an example about hastening the production of steel that is identical to one given by several informants in 1979-80).

The third problem is that prices are not really understood, they are not meaningful. Labor has no price at all. They don't understand the economics of Marx or anyone else. The Chinese communists are idealists in his opinion. They take the sayings of Marx and Mao about the evolution of human society as a virtual guarantee of economic and social progress. They are not materialists. They just try to do things according to political principles that they think are "correct" according to political principles. Labor has no price. They just pour it into production in order to meet targets and get production. In his opinion all the problems boil down to the fact that labor has no price. This is the basic cause of waste, false reports, low quality. On paper, they do figure the price of labor under costs, but this is another example of the rules being in contradiction with reality.

The system as a whole, further, "rewards the lazy and penalizes the hardworking". This is something that Li Yizhe said, and they were right. The cadres get the most, workers second, and peasants last. Among cadres, the hardest working are those who are rewarded the least, because the more they do, the more possible it is to make a mistake. When a campaign comes around, it will be very easy to find something to get them for; but those who don't do anything are the safest, and get promoted first because, since they don't do anything, they don't make any big mistakes. Being lazy is simply a "contradiction among the people", not at all serious. But to make mistakes was often a contradiction between the enemy and the people.

What about the recent reforms? Yes, they are on the right track, but it will take a long time. You can see the beginning of the sprouts of change, but only the beginnings. Deng would have to live much longer. It will take another 30 years of these policies to begin to change things. If Deng were only 35 years old, I would be optimistic. But in fact as long as the party is in power it will be very difficult to change. Why? Because in his opinion the communist party is quite reactionary. First, they oppress people and harm their interests, they obstruct the development of production and social progress; in fact they sabotage production. Capitalism and capitalists are not nearly so reactionary. They work with both their minds and their hands, and speed production. They are not bureaucrats. Communist officials just sit around and forbid people to do things. They obstruct activity. But capitalists, at least, are hastening production; theirs is a very high, abstract form of labor. Hong Kong will experience this after 1997. When the reactionary cadres come, so will the problems. People here don't understand this yet, nor do the economists; but they will in time.

### Factory Accounting

These rules are set by the Ministry of Finance. The account book headings are the same for all factories. They have fixed headings: fixed capital, government funds, production expenses, business income, profit. The system is fine on paper, the problem is that it isn't practiced the way it should be.

The finance department is supposed to manage the factory according to cost principles. Lowering of costs is supposed to be the aim. Hasten the turnover of floating capital--this way you use less money to do more work.

The money works harder this way. You are supposed to protect and maintain materials and finished products, prevent corruption and theft; prevent spoilage and waste.

But in practice things are quite different. Waste is greater in this system than in any other. First, warehouse management is bad. When I was in the shipbuilding plant I found consistent shortages in the stores when compared to the records. I investigated and found that the things had been taken by the top officials. What can you do in this situation? The top cadres like incompetent heads of the finance department for this reason--they never inspect. I found the same thing in the cement factory (it had happened in the shipbuilding plant as well). The plant director there had stolen 3000 tons of cement over the years. The party secretary was in on it too. What did I do? I asked for sick leave for three years. I couldn't report it to the above levels because I had been punished before during the anti-rightist campaign and they wouldn't believe me against the word of these two officials. And it would get back to the leaders, and they would have a campaign and declare me a counter-revolutionary.

Another source of waste: a procuring agent for the factory went out and got us 300 tons of coal, but he didn't arrange for transport. So it sat by the riverside for 2 years. Eventually a big flood washed most of the coal away. This was a case of waste caused by the system.

Lowering costs: this includes variable costs, and constant costs. Constant costs: management costs, wages, depreciation of fixed capital. We could have cut constant costs by keeping labor to a minimum, releasing those not needed. But the party secretary didn't recognize this and he was interested only in other criteria of success: he like to do political work well; promote worker activism, biao xian, volunteer work after hours and on weekends, and so forth. He didn't understand the import of lowering costs, and he didn't care. This was a case of the waihang leading neihang. He didn't know about such things. Deng now wants to change this, but is is really beyond his power to do so. There is a saying: "Good things take 10 years to carry through, bad things can be completed in only 3 days." I'll give you an example: in only three days there were no pots left for many peasants during the backyard furnace campaign during the Great Leap.

Mistaken propaganda is another problem. They reward "spirit" (jingshen) and penalize science. They are interested in people's "thought", not technical abilities.

The finance department in the shipbuilding plant had one cashier, five accountants, a head accountant (me), and the dept. head. The head of the department was a party member. He didn't do any work, just did ideological work. Again, an example of waihang leading neihang.

These five accountants were overwhelmed with work, and had to work overtime every night. This wasn't a good idea, we needed a new system. I devised a new accounting system, and after that we no longer had to work late every night. When the head of the personnel department heard about this he transfered to accountants out. So we had to work overtime again. So there was no use in trying to improve work methods. They didn't care about work efficiency. If you didn't work overtime you weren't working hard in their opinion. They promoted people according to their thought, their total effort, but no work efficiency.

### Irregularities and Corruption

What is they discovered irregularities in the warehouse or in finances, couldn't this be reported? It depends. If you report someone below you

in rank, you will be praised. If you report some one above you in rank, later on they might find a lot of problems in your own historical record. If you are going to report someone higher than you, you must consider that person's connection with the top leader. If you accuse someone who is close personally with the top leader, then he might interpret it as an attack on him personally. The only party secretaries or factory directors who are punished for corruption are those who lack connections with leaders in the leading organs above the factory who can protect them. The contradiction is this: for someone to be a top factory leader in the first place you have to have good guanxi with some leader above the factory; so it's hard to catch and punish the top factory leaders if they are guilty.

Won't stealing show up in records? Only if you have an excellent accounting system. In the cement factory, different grades of cement took different mixes of materials, and different grades were produced. So you had to keep track precisely of the different grades produced and the materials used in what proportions. The plant director was taking away the cement before it got into the warehouse where it was recorded as completed. So how did he find out about the plant director's theft? I very carefully compared our consumption of materials with the products put into the warehouse. It was a very low level of efficiency in materials use. So I made the workers put cards on each of the finished lots before they were sent to the warehouse, and found that 3000 tons disappeared. That's when I took sick leave. Why? Because if I didn't report it and the director was caught, I could be accused of being in on it, or would be accused of doing it myself, because I am supposed to report these things if I find out about them. But they weren't onto the fact that I knew, so I just took sick leave to get out of the situation.

#### Accounting in Relation to Sales and Supply (6/23/84, 3 hrs)

Documents and Records: The accounting department sent documents (danju) to the sales and supply department in order for them to buy things legally (some came from the company and bureau, but not all supplies). They are used for commodity sales, the transfer of materials between enterprises, and they are used for the procurement of materials. Actually there is only one kind of form, but they are entered into different accounts. They are used in commodity purchase, procurement, and also in the use of labor; this is under costs. Then there is sales income, then sales of materials. There are four copies for these transactions. They give one as a receipt to the purchasing unit; one copy goes to the sales and supply dept.; one copy to the finance dept.; and a fourth is the bill of lading used for picking up the materials. This form eventually returns to the sales and supply dept.

There is another set of danju for the movement of materials. First, procuring agent's cash vouchers (linghuan) allows them to draw money and buy things for the factory. The amount is not specified in advance--it can't be. It allows him to purchase materials from the plant's accounts. When he purchases something it is filled out and returned with the amount entered to the finance department. The procuring agents either have cashier's checks or actual cash before they go out, but they have to report it later. Then there is a receipt given by the other factory with the price and product written in, this goes back to the finance department too. This is one place where corruption may arise: the materials are bought and paid for legally but never really delivered to the plant.

Then there are warehouse receipts (danju). First, the shouliao dan.

There are also four copies of this form. One goes to the persons delivering the goods, the second goes to the sales and supply department, which manages the warehouse, the third goes to the finance department, and the fourth the warehouse keeps.

There is another form for removing materials from the warehouse; the chu cang dan. The first copy goes to the people receiving materials; the second goes to the finance department and is entered under the income account; the third goes to the sales and supply department; and the fourth is kept by the warehouse. The warehouse does the same thing if it is one of our own workshops that is picking up materials; this is recorded and the finance department calculates it as part of the costs of a shop.

All of this, he stresses, is a very general account. The whole procedure is contained in a thick volume in China that would take a month and a half to read.

What I've just described is a very orderly situation, but not many factories are run this well, and have backward management. I would guess that 90% of the factories in China don't add up all the accounts in the way the book specifies, and their figures don't match for many of the accounts that they do figure up.

#### Sources of Corruption and Irregularities:

1) They don't use the shou liao dan properly. We might get the form but not the materials. It never reaches the warehouse. The finance department doesn't always know what's going on with the procuring agents; though sometimes they are in on it. Some factories don't even give copies to everyone of all these forms.

2) Barter. If they barter goods rather than sell them, it doesn't involve these forms at all. They use the high quality goods to trade for low quality, or large numbers for small, and other plants will throw in money to complete the deal and the money is not reported to anyone.

3) Illegal business. There are no private businesses in China. But some procuring agents go into business for themselves. In other words, they keep the extra money for themselves. This might be legal in Hong Kong, but not in China. Some procuring agents will use the money to buy and sell things for their own profit.

4) The Backdoor. You give things to me, and I'll sell you what you need. A tape recorder, TV, or something is given by procuring agents to the sales and supply department of another factory to ensure a sale. This is very widespread.

#### Costs in Relation to Sales and Supply:

Costs include the following items: materials, power, wages, depreciation, management expenses (not figured into the production-related expenses of the shops, this limited by regulation but in reality is circumvented). The records kept to keep track of costs: materials (the forms described above; power (according to the meters, distributed among products, the factory itself does the reading, not the utility); wages (according to the wage tables, people sign for their checks); depreciation (a fixed rate according to national regulations); and management expenses.

This is the general idea, but not every factory does it this way. The practices have to vary according to the production process. In some factories an accountant has to be a technical expert to understand production and figure costs, but not in most cases.

### Relationship Between Leading Organs and the Factory

There are two leading organs. The industrial bureau and the finance bureau. In our cement factory it was the county industrial bureau. The finance bureau of that level of government also directed us. The industrial bureau was not concerned with the financial aspects; they maintained control through the director and the shuji. The plant director is responsible to the bureau head. The factory party secretary is responsible to the party committee of the industrial bureau. There are two parallel levels of administration.

The industrial bureau handles production planning at the beginning of the year. This is handled by the production statistics dept. of the factory, and reports are made to that department of the bureau. After this production plan is figured out, the finance department makes a costs plan, translating the production plan into money terms. Average cost per item is calculated. The total costs are a simple sum of the production costs for all produced items. The profit plan is also figured out at this time. According to the costs per item, profit level is fixed. Sometimes they lose money. They have to get permission to lose money beforehand and then the amount is made up by the finance bureau. All the things mentioned above are calculated as part of costs.

Turnover rate of liquid capital; the factory gets a target for this too. Before 1957 this was enforced strictly, but after the anti-rightist campaign, we were not really held to it. In 1960 or thereabouts Lin Biao had a famous saying, "Don't figure accounts for 3 years, money can't run overseas, the meat will stay in the pot, and no damage will be done." This was never published to my recollection, but all of us cadres heard of it. Lin was a genius in military matters, but when it came to economics he was a real idiot--just like Mao.

After the production and financial plans are fixed, then they are checked and approved by the industrial bureau. There were 8 targets--too many. I prefer 3--profit, labor productivity, and turnover. If you meet all of these, everything else will work itself out.

Every month, the factory must report to the industrial bureau the production, quality, and statistical forms. With the financial bureau, they have a monthly accounting. They have a form reporting total assets, one for calculating costs of production, a financial income form, and a profit calculation form. We just filled out the forms and sent them in. Only in anti-corruption campaigns did they sent people down to the factory to audit.

Every quarter, an additional set of reports; turnover of liquid capital; fixed capital depreciation, and a zhengfu zijin zengjian biao, a form reporting on the sufficiency of the funds delegated to the plant by the government.

Because this is all self-reporting, it is very easy to report falsely. They only audited during campaigns. My factory director wanted me to fill out false reports, but I wouldn't because if an anti-corruption campaign came they would blame me, not the director. So we had very bad relations, a big contradiction between us. I was afraid he would get back at me when I applied to come to Hong Kong because he had to approve the forms along with the party secretary.

Other accounting categories: finished products, materials, and debts. We can juggle these 3 categories between months and quarters, adding the income but not the delivery of the item so it won't look like we're losing money. So we sell some goods in this month and report that under income,

but still report those sold goods as part of our inventory. The next month we will put down those items as having left our inventory. This is only an effective method in the short run, because in the long run, the factory's liquid capital is reduced and we no longer have enough money to do business.

They had campaigns all the time to catch corruption. But this created contradictions. There were tensions between the plant director and the head of the finance department, and the masses were asked to expose corrupt practices. If they did this, and the plant director was caught, he would make a self-criticism quickly, but in most cases he would still be in power after this. If you are the one who turned him in, then he will surely take revenge on you later. (The implication is that if you are going to turn someone in you had better be sure that the person will be removed from office as a result, if not, you will run out of luck later on). They would send a work team down to inspect the factory's books and ask to reports from the masses. But sometimes using this method was not effective; sometimes they grab people who aren't really guilty, while the guilty ones get away (he seems to be reflecting here on his own situation described above). These campaigns created more problems than they solved. (He has already made clear above that he thinks that carrying out the regulations faithfully would make these campaigns unnecessary; and this would mean giving the finance department real powers).