

1997

In the second half of the 1990s, the Chinese Party-State decided to accelerate the reform of state-owned industry. The Fifteenth Congress of the Chinese Communist Party in 1997 is frequently considered a watershed moment in this process. On that occasion, then Party General Secretary Jiang Zemin gave an important speech in which he emphasised two key slogans that set the tone for what was to come: 'cutting workers to increase efficiency' (减员增效) and 'grasping the large [companies] while releasing the small' (抓大放小). The following years would see a massive wave of layoffs in state-owned and collective enterprises throughout the country, sparking misery and dislocation among workers who had long been considered China's proletarian aristocracy. This essay examines the 1997 congress, arguing that while it was indeed a significant inflection point, the dynamics it threw into sharp relief had been set in motion well before then.

***Xiagan*: The Fifteenth Party Congress and Mass Layoffs in State-Owned Enterprises**

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For seven days in September 1997, the Chinese Communist Party (CCP) convened its Fifteenth Party Congress in Beijing. Emerging from the congress was a series of statements and documents that put reform of state-owned enterprises (SOEs), and particularly of labour relations within them, front and centre. Many observers have jumped to the facile yet erroneous conclusion that this marked the sharp injection of hard budget constraints into the logic of firms now expected to behave as market-rational actors and reduce their excess costs—the greatest of which, by far, were to be found in payrolls massively bloated by bureaucratic labour allocation under the planned economy. It is essential we remember, however, that, rather than a monocausal tale of hardening budgets, the reform of state-owned industry in China has been a meandering—and unfinished—journey of negotiation, experimentation and occasional desperation unfolding over four decades.¹ This essay recounts that journey, analyses the specific impacts of the moves made at the Fifteenth Party Congress and offers some updates in light of events up to early 2021.

The Two Decades before the Congress

The reform-era story begins with the contested process of decollectivisation of agriculture (see Unger's essay about 1981 in the present volume). Heralded by many scholars abroad (and by the Chinese Government at home after the fact) as an unqualified success, decollectivisation brought sharply differential results to different parts of China. In the northeast, in particular, it failed to deliver promised benefits and led to significantly decreasing rural incomes relative to the rest of China. Combined with early moves towards what became known as the 'dual-track system' (双轨制), under which SOEs were allowed to sell on the market products they manufactured outside or beyond plan quotas, reform left many heavy

industrial firms in the northeast adrift, especially as they were unable to modify production to turn out goods demanded in the mainly light industrial and consumer-oriented market.

In a shifting political economic landscape, in which ‘pigs were suddenly more valuable than pig iron had ever been’, the northeast’s heavy industrial behemoths faced especially sharp challenges if they were even to try to reap benefits from the market or make up for reduced assistance from the state plan.² Stagnant or declining local revenues conspired with worsening business environments and fraying ties with Beijing to drive many SOEs across the northeast into severe deficits and arrears, forcing them to lay off significant numbers of workers. Still, most such layoffs were concealed in official data and reports, and nearly all took place through various informal arrangements. By the end of the 1980s, a number of northeastern cities were filled with SOEs that had gone bankrupt in all but name, and perhaps millions of workers had already lost their jobs and incomes, even if they could not be reported formally as ‘laid-off’ (下岗) or ‘unemployed’ (失业); at that time, the former category did not yet exist under Chinese law or policy, while the latter was so politically sensitive and ideologically charged that most officials and enterprise leaders sought to avoid at all costs designating anyone as ‘unemployed.’³

Starting in the early 1990s, however, the woes of the northeast began to spill over the Great Wall and into other regions of China’s industrial heartland. Areas with high concentrations of extractive industries—like the coal-mining-dependent North-Central provinces of Shanxi, Henan and parts of Inner Mongolia—were an aberration. Here, SOEs *added* substantially to their workforces between 1990 and 1997. Elsewhere, however, as in the region I have called the Upper Changjiang (comprising Hunan, Hubei, Sichuan and Chongqing), many SOEs began shedding workers, as competition with foreign firms, private firms, and other SOEs became increasingly intense. Several SOEs had difficulty competing, in part due to structural disadvantages, such as antiquated equipment, restrictions on specific sectors or activities and locations selected based on national security rather than business principles during the Third Front (see Meyskens’s essay in the present volume). Military enterprises were hit especially hard. The only region where firms came under intense pressure but were still largely able to stave off layoffs was the central coast (Tianjin, peninsular Shandong, Jiangsu and Shanghai), where the rich

coffers of local governments played a vital supportive role.⁴ Meanwhile, the carnage across the northeastern provinces of Liaoning, Jilin and Heilongjiang continued apace, accelerated by new trends such as foreign competition in sectors like automobiles and structural changes like the exhaustion of important oil and coal deposits.⁵ Thus, by the time the Party congress delegates convened in 1997, mass unemployment was already a reality across much of the Upper Changjiang and had become a severe social problem in the northeast.

A Watershed?

At the famous Fifteenth Party Congress, General Secretary Jiang Zemin gave perhaps the single most notable and influential speech on SOE labour reform of the period, emphasising two key slogans: ‘cutting workers to increase efficiency’ (减员增效) and ‘grasping the large while releasing the small’ (抓大放小). Specifically, he proclaimed:

We must look to do well by the whole state-owned economy, grasping well the large and letting go of the small, to achieve a strategic restructuring of the SOEs. Taking capital as the bindings we must, through the market, amass great enterprise groups that are of relatively strong competitive ability, multi-regional, multi-sectoral, multi-ownership system, and multi-national ... [We must also] implement and encourage annexations, standard bankruptcies, lay-offs and departures, cutting workers to increase efficiency and the re-employment project, give shape to a competitive mechanism of survival of the fittest for enterprises. With the deepening of enterprise reform, technological progress, and structural economic challenges, the movement of personnel and the laying off of workers are difficult to avoid.⁶

This bold declaration of the Party’s intention to reform labour relations in the state sector, and of its willingness (even eagerness) to do so through the specific mechanisms of closing or selling off smaller and unprofitable firms and deliberately cutting workers from the labour force, marked an important departure. No longer did layoffs need to be kept hidden. Rather, firms were explicitly encouraged to use them as a primary, valid means

for achieving profitability. This message was reiterated countless times in subsequent years, following the opening of the gates at the congress.

Indeed, within a few months, in December 1997, then Premier Zhu Rongji delivered an even starker directive in a high-profile speech entitled 'Resolutely and Unswervingly Follow the Road of Encouraging Annexations, Standard Bankruptcies, Layoffs and Departures, Cutting Workers and Raising Efficiency, and the Realisation of the Reemployment Project.'⁷ By May 1998, the State Council and CCP Central Committee jointly convened the 'Work Conference on Basic Livelihood Protection and Reemployment of Laid-Off Workers in SOEs,' at which both the demand to reduce staff to increase efficiency and a number of policy measures aimed at easing workers' dislocation were trumpeted. By the end of 1998, the number of laid-off workers had duly increased to at least thirty million.⁸ It is important to note, however, that China's official formal 'unemployment' rate (城镇登记失业率) never rose to anything like a correspondingly high level. That category remained restricted and politically policed, with only workers whose firms had failed or who had other kinds of special status permitted to register formally as 'unemployed'. This left a conceptual and regulatory morass in which pinning down precise numbers and rates of joblessness was notoriously difficult.⁹

But how much had really changed? Did the Party congress and work conference actually reorient the political economy of China's SOEs? Or did they simply formalise and give official endorsement to measures already undertaken on an ad hoc basis for many years? Did thirty million workers lose their jobs in two years, in other words, or were they simply acknowledged and counted as laid-off, having been concealed in that de facto status before? The answers depend heavily on at which regions and sectors one chooses to look. While the official narrative was one of sharp redirection, we have seen that unemployment on a massive scale had already existed in places like the northeast for at least a decade. Many older Third Front and other heavy industries in inland regions, like the Upper Changjiang, had also been struggling, while international and domestic competition were hurting light industrial firms across those and other areas. Genuinely new unemployment was concentrated in resource-extractive sectors in regions like northern-central China and in the otherwise relatively economically healthy cities along China's central coast.¹⁰

In these regions, job losses occurred largely in direct response to *political* rather than *economic* pressures. Far from a natural hardening of SOE budget constraints, the orders disseminated from the state leadership and Party centre were programmatic commands. Firms received quotas for what percentage of staff should be laid-off and sometimes had to scramble to meet them, shedding workers they actually needed to maximise efficient production.¹¹ Such job losses by fiat constituted a critical subset of SOE layoffs that too often has gone unnoticed. Many observers have assumed that layoffs were a ‘northeastern problem’ and failed to recognise that a plurality of layoffs—and a majority of those that were verifiably novel in the late 1990s and early 2000s—occurred in places like Shanghai or Nanjing, rather than Shenyang or Anshan.

Another mechanism that became important was the policy of ‘grasping the large while releasing the small’. This emerged from debates around the Ninth Five Year Plan (1996–2000) and was, in fact, already being implemented before the Fifteenth Party Congress, despite the erroneous insistence of some scholars that it emerged only after the congress.¹² But, after 1997, its implementation was expanded to facilitate state economic and political divestment from thousands of small and medium-sized SOEs, affording local governments and enterprise cadres wide latitude to restructure or close those firms as they saw fit.

While the Fifteenth Party Congress was certainly not the cause of all—or even most—layoffs across the Chinese state sector, it was indeed a significant inflection point, exacerbating existing trends in some regions and sectors and adding new pressures across others. The festering problems of the northeast and certain other places were formalised and brought into the open. Economically healthy regions and sectors were ordered to cut staff in response to political fiat. And the existing mechanism of encouraging divestment from smaller firms was broadened and bolstered to speed up the privatisations and closures leading to the loss of millions of jobs.

Grasping the Large and Releasing the Small

While many have remarked that the policy of grasping the large while releasing the small was a major contributor to layoffs, fewer have analysed its implications in detail, especially at the microlevel.¹³ Across a great

many small SOEs and urban collective enterprises, the policy was used to justify *de jure*, as well as *de facto*, privatisation and the mass layoff of nearly all employees. After being let go, workers could then apply for their old jobs, often at lower salaries and sans any other benefits or security. Many were never allowed to return at all. Others were asked to pay fees or bribes for the privilege of going back to work.¹⁴

In my own previous work, I examined the detailed case of a machine tool plant in a part of Hubei Province I called ‘County J’.¹⁵ Based on streams of enterprise and county government internal documents, I was able to piece together the tale of that firm’s restructuring as it unfolded over about a year between the summer of 1996 and mid-1997, amid a broader process of policy involution that bent the implementation of general central directives to the particularistic advantage of enterprise cadres and local officials. Unsurprisingly, it rendered the plant’s workers much worse off. In the end, the plant was transformed into a private corporation, with shares distributed among workers and managers, but in a manner requiring workers to pay to keep their shares (even as their jobs were in jeopardy). Those who could not pay saw their shares go up for auction to enterprise cadres or other workers with deeper pockets. By 2011, the reconstituted firm had achieved a high level of commercial success, but with a workforce only 40 percent the size of what it had been in 1996. A firm that had long been a critical employer in this county town had become profitable, but no longer offered many jobs. Similar stories were repeated all over the country, especially in county towns and smaller prefecture-level cities, where local SOEs and even smaller collective-sector enterprises predominated (and where other employment opportunities tended to be scarce).

2008 and Beyond: Cresting of the Wave?

Over the decade after the Fifteenth Party Congress, a new policy consensus came into focus around a more universalistic welfare relief program known as the ‘minimum livelihood guarantee’ (最低生活保障, or *dibao* for short).¹⁶ This, combined with comprehensive healthcare and pension reform, constituted a new state welfare regime for Chinese workers (see also Solinger’s essay in the present volume).¹⁷ Social protection, though less generous and encompassing, was no longer tied nearly so closely

to the work unit as it had been previously. Moreover, the political and economic logics of layoffs were evolving rapidly and changed markedly with the advent of the Global Financial Crisis in late 2008.

With job losses already slowing in the state sector from about 2005, China's response to the 2008 crisis halted them almost entirely and reversed many trends. Indeed, the massive fiscal stimulus the central government injected into the economy had a principal effect of showering credit and investment on SOEs, rendering workers still employed in them a new kind of 'blue-collar aristocracy'.¹⁸ Wages and working conditions improved markedly, where they had been declining precipitously for most of the previous twenty-five years. Though layoffs returned to some industries by the 2010s (especially in coal mining and some other heavy industrial sectors), they never again approached the pace or severity of the precrisis years; for one thing, there were not many workers left to shed, with more than 60 percent of state-sector jobs already gone.

Reverberations

Much has been made of China's characteristic labour market fragmentation, dating back to before 1949.¹⁹ In particular, many (myself included) have drawn sharp lines between the politics of state-sector workers and their counterparts among rural-urban migrants. The long-run effects of the changes that unfolded since the late 1980s have included a weakening of this division and a blurring of old lines. Gone are the days of 'iron rice bowl' security for the urban labour elite in the state sector. Meanwhile, the most invidious and discriminatory rules excluding rural migrants from urban China's economy and society have eroded to a much greater degree than many thought possible even a decade ago. But the division of China's working class into a privileged state-sector elite and a disadvantaged mass of migrants has also been strengthened in other ways. With lower-skilled and older workers now mostly gone from SOEs, those remaining occupy higher echelons of the social hierarchy than either migrants or many of their own predecessors. The earthquake that shook China's state-sector labour market for more than two decades will continue to reverberate in these and myriad other ways for many years to come.