

W. A. C. Adie

# The Long March to the Market

## Through “Turmoil” to Trade?

中國

THE MOST SURPRISING thing about China's white terror of June 1989 is the number of people who were surprised by the events. Shooting had already been reported from Tibet in March, and Amnesty International and other sources (including the authorities of the People's Republic of China) had recorded serious violations of human rights from time to time, notably during the decade of “Cultural Revolution” from 1966-76. Reports in the Chinese as well as in the foreign mass media over the last couple of years had made it clear that Peking was losing control.

As Deng Xiao-ping put it afterwards, “Things were bound to come to a head”. Once he and his veterans had defined the situation as “turmoil”—a key word in China—the response was predictable, on precedents from both Communist and Chinese history. For the régime was not facing merely a peaceful student “pro-democracy movement”. The *Beijing Daily* for 15 June 1989 attributed to “a student” this ambiguous understatement:

“The events of the last two months were absolutely not as simple as most people have thought. . . . Unfortunately, kind people always simplify complicated matters.”

Twenty years ago, my thumbnail sketch of the Cultural Revolution<sup>1</sup> had been viewed as unkind, even “derisive”. I saw it as:

“. . . an enigmatic multiple power struggle, wrapped in a crusade and superimposed upon a scattering of more or less spontaneous, more or less politicised, student riots, strikes, mutinies and palace coups.”

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The Peking media abundantly confirmed and elaborated on those words after the upheavals of 1976 (which so paradoxically previewed those of this year), and they continued to do so right up to the climax in June 1989 which unveiled glimpses of the same features—here a tooth, there a claw.

Those scenes which shocked the world on TV dramatised the long-grinding tectonic clash between the effects of the “Second Revolution” of modernisation-and-opening-to-the-world (M & O)—which were only the latest in a long tradition of top-down “reforms” going back to the 1950s, the 1890s, AD 1066 if not 10 . . . —and the traditional sabotage of reform by bureaucratic élites, and suppression of any resulting “turmoil” among the masses. Precedents abound; but this time things are different, thanks to the massive, however unintended, benefits of that M & O card which Deng Xiao-ping played on his return to hegemony in 1978. As his late protégé and chosen successor-and-reject Hu Yaobang said in 1984, it had been as important a revolution as the Communist one. For the first time in history the conditions had been created for effective reform—from below and from outside, as well as from above.

The 1978 policy was intended to renew the régime's legitimating myth in the guise of a socialism with Chinese characteristics, dropping Maoist social-engineering (“class struggle”, or gardening from horseback) in favour of engineering *tout court*. Instead, it disempowered the Centre and brought to the rural sector dizzy successes in commercialisation, monetisation, and massive industrialisation—followed by crisis, food shortages, re-rationing, and unrest (farmers kill tax-gatherers, etc). On the urban-industrial front, while Peking was diligently devising pilot projects to galvanise the uneconomic State sector, a new collective and private sector boomed up behind its back with another unplanned miracle, followed by a remarkable mix of inflation, bank runs and panic buying, money supply blow-out, unemployment and mass migration to boom areas like Canton, murders of factory managers, train robberies, other serious crimes—and more booming growth. Meanwhile, a better-educated generation arose (over 60,000, not counting language students, had studied abroad). Many of them were products of the one-child policy, and they were inspired by

<sup>1</sup> W. A. C. Adie, “China's Second Liberation in Perspective”, *Bulletin of the Atomic Scientists*, February 1969.

the older “intelligentsia” who manned think-tanks and published objective research and diverse opinions in thousands of new media outlets.

At a fateful semi-secret meeting last autumn, the Party elders turned down Secretary-General Zhao's daring plan for a *fiute en avant*, another Leap Forward into liberalisation. They retreated from “the market”. Now scholars are in exile, in hiding, or in disgrace; and the future of Zhao Ziyang, their sponsor, is unclear. The “winners” in the June events, however, have in the end lost both hegemony and *Dao*, that all-important moral influence which (rather than the constitutional forms, which were not observed when it came to the crunch) was always their source of power. On the other hand, the outlook for the people of China and for the rest of us is good, provided that the situation is properly understood and handled—especially as regards the security of Hong Kong and its inhabitants.

IRREVERSIBLY, the People's Republic of China (especially its coastal regions) has become part of a global, borderless market of goods, funds, and information; it is daily more linked to and becomes more like Taiwan, South Korea, Japan, Hong Kong, Singapore, and Chinatowns around the world (there are at least 40 million overseas Chinese). With the imported gadgetry and fashion of the Japanese-style *shoohi kakumei* (consumer revolution) have come new thoughts and unfilial behaviour; expectations of what the French Revolution of 1789 had promised but never delivered, and a *soupçon* of Paris 1968, Kwangju, and Manila as well. Not to mention Japan's demonstration of how to shift a played-out patriarchal régime towards more substantive democracy, without violence.

The main factor in this revolution has been communications technology; the main agent of change (as distinct from the M & O policy which catalysed it) was the “bottom-up” influence of investment and the transfer of technology, managerial skills, etc., above all, from and *via* Hong Kong to the specially opened coastal zones and beyond. This is why it is so important, for the good of the millions of Chinese and for the development rather than collapse of the liberal international trading system, that proper arrangements be made to ensure the preservation of a democratic and prosperous Hong Kong after 1997.

*“If China is not to perish, as past history tells us, the future holds a tremendous surprise for the murderers.*

*This is not the conclusion of an incident, but a new beginning. Lies written in ink can never disguise facts written in blood. Blood debts must be repaid in kind. The longer the delay, the greater the interest!”*

Lu Xun (1881-1936)

**T**HUS CHINA'S GREATEST modern writer and revolutionary, writing of the massacre of 18 March 1926 when the Peking warlord troops fired on some 30,000 patriots who were carrying on the tradition of 4 May 1919, when students had massed to protest against the authorities'

collusion with Japan. On 3 June 1926, Shanghai workers struck to protest against the ensuing “crackdown”. . . . On the night of 3-4 June 1989, once again something old but not eternal broke the surface of modernisation to claw back “the masses” from an adulthood of “science and democracy” (the slogans of 1919), and return them to an infancy of lie-by-decree and head-down dwarfed submission.

To quote Lu Xun again: “In the end the simplest and best way to describe Chinese history would be to distinguish between two types of period: (1) The time when the people vainly yearn to be able to have the stable condition of slaves; (2) The times when the people temporarily get to enjoy that stable condition of slaves.”<sup>2</sup>

A bit harsh, but it encapsulates how the dynastic cycle has coopted “turmoil” (*hunluan*) in order to renew itself, in the absence of any mean between flux and standstill such as Plato found in the heavens, the Polity, and the Laws. On 26 April 1989, a *People's Daily* editorial, allegedly reflecting the view of Deng Xiao-ping, accused the Tian An Men demonstrators of plotting “turmoil”, contrary to previous Party assessments. If this upheaval was allowed to go unchecked, it said, all the Party's reform programmes and perhaps the achievements of the last ten years would disappear into thin air:

“. . . programmes on which the highest hopes of all the people of our country, including the great majority of young students, are placed . . . such as reform and opening up to the outside world, regularisation and rectification, construction and development, opposition to the phenomena of corruption, the construction of democracy and a system of law . . . .”

This editorial, together with subsequently published statements and measures attributed to Deng Xiao-ping, suggests another adroit compromise between the disparate tendencies towards warlordism and reform. We must remember that Deng was brought up in a hard school, not in the “Western” tradition, although unlike Mao he studied for several years in France. (So did Pol Pot.) His grandfather, a famous scholar, was at one time tutor to Emperor Chien Lung.

In the Chinese tradition, the relationship of such élite persons to their superiors in both family and hierarchy/bureaucracy was regulated by *Li*—the rules of behaviour reflecting the status and “face” of the actors, which have been defined by one sociologist as “a power-orientated quality of interaction connected with a position of authority in some kind of enduring group structure . . . the real basis for their power”. As the Qing dynasty's Sacred Edict put it, *Li* are for the élite (the literati, or scholar-gentry), and *Fa*—laws in the sense of prohibitions and punishments—are for the common people.

Of old, a scholar could remonstrate with a ruler or commit suicide to shame his times, as did Chu Yuan (c. 343-289 BC), in whose honour the Dragon Boat races are still held every year. That tradition lives on; but in Deng's case his patrons and mentors were other octogenarians inured to slaughter by revolutionary war and by Mao Tse-tung, who (as Andrei Gromyko's memoirs tell us) thought it would be a good idea to lure American troops into China and then use Soviet nuclear bombs on them. No wonder his chosen successor, Mars-

<sup>2</sup> Lu Xun, *Collected Works* (Peking, 1963), vol.1, pp. 311-12.

hal Lin, gave Mao the code name “B-52” in the plans for his assassination towards the end of their murderous “Cultural Revolution”. (In the event, what Mao called “a drop of disinfectant” disposed of the Lin family.)

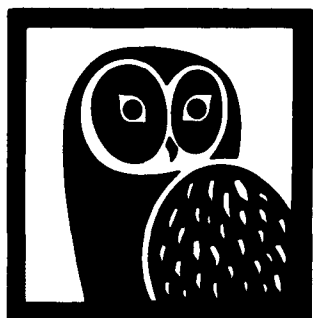
Like the late Premier Zhou En-lai, Deng realised the need to associate educated civilians and technocrats with the building of a China made strong through modernisation of agriculture, industry, national defence, and science and technology. Ironically, Deng had been purged in 1976 for inciting the students to demonstrate, on 5 April that year, at the Monument to the People’s Heroes in Tien An Men Square, during the Ching Ming festival when ancestors are commemorated. The wreaths they laid in honour of Zhou, bearing inscriptions implying dissatisfaction with Mao and “the Gang of Four”, were removed by the authorities. The students then declared:

“China is no longer the China of ancient times. And the people are no longer wrapped in sheer ignorance . . .

Gone for good is Qin Shi-huang’s feudal society [Mao’s model, the first Emperor] . . . what we want is real Marxism-Leninism! . . .

The day the Four Modernisations are achieved, we shall return to offer libations and sacrifices.”

### The Birdcage Economy



AFTER THE END of Mao and his “gang” later that year, Deng’s comeback began with the support of such veterans as Marshal Ye Jianying. They imposed on him an additional four requirements, which were irreconcilable with “the Four Modernisations”. In the end, they boiled down to

one—preserving the dictatorship of the Party. The bird must stay in the cage.

This came to mean the establishment of three public echelons of senior Party leadership, and one—more powerful than visible—of “respected elders”. It was to these that Deng publicly attributed responsibility for the decision to declare martial law and for its implementation in June 1989,<sup>3</sup> just as his then protégé Zhao Ziyang was accused of spilling the beans to his opposite number, Mikhail Gorbachov, that Deng was still really in charge, although officially his only post was head of the party’s Military Commission.

As in 1978, the octogenarians wanted to save “socialism”,

<sup>3</sup> Jerome A. Cohen, the expert on Chinese law, has raised doubts as to the constitutional legitimacy of the martial law régime in Peking: “Indeed it appears that, in recent years, the Party has secretly operated on an illegitimate basis” (*Far Eastern Economic Review*, no. 13, July 1989). However that may be, the extensive troop movements around the country and the deployment of air-to-surface missiles in the capital suggest that the June massacre was merely one by-product of an incipient *coup d’état*.

and through it the Party; but in ten years the Party had changed. The cage in which wise old Deng and his owlish brood had been allowed to flutter in pursuit of the right mice has acquired a Brezhnevite tinge of guilt. Fang Lizhi, the dissident astrophysicist, quipped that under the Guomindang (i.e. Chiang Kai-shek) rule of mainland China, four big families had turned the economy upside down; but now there were four hundred, and “I don’t know how much they have in their offshore bank accounts”.

Cynics noted that the winners in June seemed to be the President of the People’s Republic of China, General Yang Shang-kun; his younger brother Yang Baibing (head of the General Political Department of the People’s Liberation Army, which effectively took charge when the leadership appeared divided on handling of the student movement); his son-in-law, Chi Haotian (Chief of Staff of the PLA); and his grandson Yang Jianhua (Commander of the 27th Field Army, which led the assault on Peking’s city centre). However, Zhao’s replacement as Party figurehead was the polyglot Soviet-trained electrical and mechanical engineer Jiang Zemin, a former mayor of Shanghai who had distinguished himself by suppressing its most outspoken journal and its “pro-democracy” demonstrations without having to call in the Army. Nicknamed by China’s sharpest tongues *hua-ji-zi* (flower stand), because it looks good and does nothing, he is, rather, a “stepping-stone” person, no fool around foreigners—and son-in-law of veteran and former President Li Xian-nien.

In some ways the Chinese Communist Party has been getting more like the factionalised and gerontocratic Liberal Democrat Party in Japan. Many other senior officials are related to Marshals Li, Ye, Nie Rongzhen, etc. Nothing wrong with that; but, when you begin to look at big business, the members of the *taizi dang* (“crown princes”) party begin to glitter in the murk. One of Deng’s sons-in-law, son of a senior soldier, is President of Poly Technologies Inc., a leading Chinese company in the international arms trade—the Army is active in all sorts of business, including tourist hotels. Many scions of the veterans have gathered to make money in Shenzhen Special Economic Zone next to Hong Kong, and this had much to do with the changes for the better which, thanks to the decade of “reform”, had been going on outside and despite the ruling élite.

The Communiqué of the epoch-making Third Plenary Session of the Eleventh Central Committee, held in December 1978, had called for “changes in all methods of management, actions and thinking which stand in the way” of the growth in productive forces required by the Four Modernisations “for the consolidation of the dictatorship of the proletariat in our country”. Now that “large-scale turbulent class struggles of a mass character have in the main come to an end”, it said, all should “pool their efforts and carry out the new long march to make China a modern, powerful, socialist country before the end of this century”. The Eleventh Central Committee also reversed the verdict passed by their predecessors on the Tian An Men events of 5 April 1976, which now became “entirely revolutionary actions”. They rehabilitated leaders who had been “victims of frame-ups”—such as General Yang Shang-kun, the constant bridge part-

ner of Deng Xiao-ping. And they “held a serious discussion” on democracy and the legal system:

“The correct concentration of ideas is only possible when there is democracy . . . . Procuratorial and judicial organisations must maintain their independence as is appropriate . . . serve the people’s interests, keep to the facts . . . and deny anyone the privilege of being above the law.”

The drafting showed concern for “checks and balances” between what might be tagged the “spring” and “winter” lines (or clans) in the Party—those who sought to swim on the tide of “democracy”, if only to outflank their rivals, and those who wished to dam it in the name of stability, if only to grasp power.

You will recall that in 1979 there was a “Peking Spring”, with plenty of wall-posters, when Deng needed a spontaneous mass movement to help get rid of Mao’s successor, Hua Guo-feng. It was orchestrated by Hu Yaobang, the Party General-Secretary, who in 1987 was forced to resign for permitting “bourgeois liberalism”. As the saying goes, when the hares are all gone, the hounds go into the pot. One fine day the posters were scraped off Democracy Wall, and the student Wei Jing-sheng went to prison, where he remains, for arguing that a Fifth Modernisation—democracy—was needed in order for the others to work.

All the same, good intentions had been expressed in that Central Committee document, even if they were cautiously qualified. So how did the second Long March lose its way? And why do I think it will get there in the end? After the terror and more than a whiff of grapeshot in advance, is Peking nearing its 1789? (Some of the Tian An Men demonstrators openly threatened to “storm the Bastille” and arrest Deng & co.)

**F**OUR PLUS ONE (democracy) = Modernisation. Four in one = Oriental Despotism. The clash of the economic and political foursomes ensured that in playing the card of modernisation and sponsoring the relevant executors, Deng started not with a *tabula rasa* but with a multiply flawed inheritance.

Its conceptual basis was described by one Chinese social scientist as a mix of feudal privilege, Stalinism, and the experience of the wartime liberated areas—and by a Western economist, Jan S. Prybyla, as a vacuum rationalised as pragmatism.

Its method, officially described as “crossing the river while groping for the stones”—in other words, the 19th-century dream of grafting foreign techniques for “use” (*yong*) on to an unchanged Chinese core or body (*ti*)—was modernised into a “reverse engineering” model of eclecticism based on trial-and-error.

When you took a captured tommy-gun to bits and copied the parts to make another, it more or less worked; but this procedure was not so effective with a Boeing 707, much less with economic and management techniques which are not too successful in the advanced industrial countries either. In spite of the excellent work of think-tanks and scholars, there

was a certain amount of non-functional replication—as in the case of the early Japanese export pencils which had a little black dot at each end, and no lead; or the marble warship; or Shenzhen; or the proposed Hainan racecourse where betting was to be forbidden. . . .

It was flawed, too, in the instrument—the more than 20 million “cadres”, twice as many Party members, and the soldiery. As in previous attempts to reform China from above, those who were to carry out the Centre’s policies of marketisation and monetisation were those who stood to lose the privileges they had from the existing rank- and power-based system. Many were illiterate, according to Xia Yan—in 1930 the venerable co-founder (with Lu Xun) of the Leftist Writers’ Association—because of the neglect of education since Liberation. (This was confirmed by a *Beijing Review* item headed “Illiteracy Threatens Modernisation”.) “The key point”, Xia Yan had continued, “is that no one has a consciousness of the legal system, and there is no understanding of any laws whatsoever”. The third major “mistake” he identified was the birth rate, about which he felt nothing could be done.

At the end of last year, the journal *Lilun Xinxi Bao* (*Theoretical Information*) denounced “vulgar power-worship” in today’s China:

“The ‘cultural revolution’ presented the most ridiculous and longest farce of power treading law ever seen in China. Even today, many power-wielders still hold that the law is to deal with the enemy or restrain the masses, and has nothing to do with them. . . . In our society, some people . . . try their best to transform power into property . . . writing a slip of paper is power; a ticket is power; and a signature is power.”

The veteran Peng Zhen, former Mayor of Peking and long associated with attempts to promote legality, told the Hong Kong Communist paper *Da Gong Bao*:

“We want to carry out all sorts of reforms—but how? . . . It is only after we have acquired some experience that we can write it into law . . . if the State Council [Cabinet] is not able to take any action until the law is on the books, then we cannot acquire any experience. And as long as we have not acquired any experience, we won’t know how to frame the law.”

Deng himself deplored the neglect of education, but turned out to mean by that word indoctrination in Communist theory and the old style of plain living and hard struggle.

**I**N SPITE OF all this, the “sweet-sour decade” over which Deng presided had “witnessed the most dynamic and rapid growth since New China was founded in 1949, while living standards [rose] faster than ever before”, as the Vice-President of the Academy of Sciences, Liu Guogang, put it in January 1989. But he went on to explain the emergence of inflation, unfair income distribution, and a “drop in social morals” in terms of the three main stages of restructuring: first, from the Third Plenary of the Eleventh



Central Committee in December 1978 to the Third Plenary of the Twelfth Central Committee in October 1984; from then to the Thirteenth Party Congress in October 1987; and from then to the time at which he was writing.

In Stage One, partial liberation of the rural “productive forces” saw rural *industry* increase by 266% from 1983-86, with 120 million peasants employed in it by August 1987. The commune system was replaced by a family joint-production contract system (with land, in effect, loaned to the tillers indefinitely), remuneration linked to output (although still below market prices), and the balance of prices between agricultural inputs and products altered in favour of the farmers at the cost of enormous subsidies to keep urban food prices down. Last year, for instance, RMB 28 billion<sup>4</sup> (equivalent to US \$7.5 billion) were spent on grain subsidies.

In practice, the local cadres overcharged for fertiliser and the government could not pay for the compulsory grain deliveries because in Stage Two, from 1984 on, “sourness” had increased. The traditional agricultural system had reached its ceiling, while in the urban-industrial sector measures intended to enable Peking to control the economy more loosely through the market only created what one Chinese economist described as a multi-level State Economy, and the head of the Euro-China management school in Beijing named “industrial feudalism”.

In Liu Guogang’s words, in the cities “a series of initial reforms and experiments was introduced in production, circulation, pricing, labour and wages, commerce, material supply, and foreign trade”. Reforms in scientific research and education also began. It was a mammoth task. The devolution of powers to enterprises and a decrease in the number of commodities subject to central mandatory planning and pricing did not, however, “increase the role of the market mechanism” so much as create a plethora of mini-command economies which dodged central control just as “the Great Leap Forward” and the “People’s Communes” of 1958, and the more pragmatic policies of the early 1960s, had overshot and spawned “watertight” fiefs.

The Director of the Office of Research on Agricultural Villages of the State Council reported in April 1989 that:

“The reform of the economic system with the two-track price system as its core has created opportunities for bureaucratic profiteering . . . it has ruined the morale of society. . . . A great surging wave of reform, that had downward delegation of authority and permission to keep profits as its main characteristics, has been blocked.”

A member of the Academy of Sciences pointed out in the same issue of *Wide Angle Monthly* that:

“Our country can only be called a multi-level State economy . . . all the economic units belong to governments at various levels [e.g. central, provincial, municipal and local, county, township, and village levels]. Moreover, the people in charge of enterprises have different levels on the basis of the administrative office that manages them. For example, there is the provincial or military region level, municipal/local/county level, depart-

ment head or assistant department head level. . . . In the allocation and exchange of plant quotas, labour, fringe benefits, labour insurance and the materials of production, all these various enterprises enjoy different treatment according to their level. For example, there is now an acute shortage of electricity all over the country; yet [it] is available at different prices: the ‘plan’ price, the ‘mixed price’ and the ‘negotiated’ price. Which price an enterprise has to pay depends on its level. Major state-run enterprises are more frequently granted the ‘plan’ price; county and township enterprises and individual household enterprises are rarely or never granted it.”

This long quotation from the horse’s mouth gives the flavour of many others.

WHILE THE multiple-track price system alone was enough to turn many officials into black-marketeers, the policy on foreign trade and opening to the outside world reinforced both the good and the bad sides of burgeoning entrepreneurship by re-establishing something like the old treaty-port system on the coast, seen by Deng as potentially “many Hong Kongs”. In consequence (to quote Liu Guogang again):

“China has a vast open belt along its coast, embracing more than a million people, which will gradually expand inland. By the end of 1987, China had approved 9,973 foreign-funded enterprises, of which 4,300 have begun operation and 80% are in the coastal areas.”

Since most of this investment comes from Chinese outside the People’s Republic of China, its unintended effects have been as important as the equally startling development of rural industry which liberated millions of peasants from their millennial bondage in provisioning the cities and bureaucracy. According to the official Qing dynasty handbook on the Grand Canal, which was built in the 14th-15th centuries mainly to shift grain from the key economic area south of the Yangtze to the key strategic area north of it with the capital near the Wall, there were at one time 170,000 military and civilian officials, each with about eight household members, to be fed by the tribute. Thus, some 1,360,000 mouths needed transport of 400,000 tons *per annum* up from the Yangtze valley.

In spite of Mao’s ideological emphasis on the peasantry as a revolutionary force, *his* system relied on squeezing them for capital accumulation to build industry—as far as possible on the uneconomic basis of potentially autarkic provinces—in case of war. By 1987, however, modernisation had improved productivity to such an extent that at least 200 million peasants were no longer needed on the land. Since industrialisation was blocked in the cities, it sprang up in the country—from 1982-87, gross industrial output rose by an average of 12%. Subsistence peasants, in areas previously known for exporting beggars, began to buy TV sets. . . .

Thanks to price reform, the grain harvest of 1984 overshot by 407.37 million tons 1978’s planned target for the year 2000. So, in the second stage of reform, the régime officially abolished the compulsory sale of produce at its set price;

<sup>4</sup> *Ren Min Bi* (Yuan), the people’s currency.

farmers signed a contract instead, and the State was also to procure on the open market. In practice, however, the peasants were still pressured by local officials to deliver, while inputs were sold to them at rip-off prices. Meanwhile, as the population grew at the rate of ten million a year, the available arable land decreased each year by eight million acres, and farmers chose to grow more lucrative cash crops or engage in "sideline occupations" rather than grow grain. Then neighbours suffering from "red eye" disease (envy) or "white eye" (spite) would move in to prevent the more capable farmers from operating to capacity.

A study by a Research Fellow at the Chinese State Planning Commission's Investment Research Institute concluded that "over the last five years, China's agriculture has stagnated". Increased productivity from the decreasing sown area had mainly been achieved by "predatory operation", i.e. by the use of more artificial fertiliser per hectare (the average was 120.66 kg.) than such major producers as Canada, Australia, and the USA. China's land-management system—labour-intensive small-scale gardening—had reached its limits; and land must "now be transformed into a commodity and concentrated in the hands of farmers who have the ability to make large-scale investment" (*Beijing Review*, 1 May 1989).

**B**Y LATE 1988, the emerging younger generation of Chinese think-tankers were saying that the restructuring programme as a whole had reached the end of the road, notably in the case of the urban/industrial enterprises "owned by the whole people"—i.e., by the State, which meant that, in the absence of real property rights, profits were distributed among the staff according to rank. These individuals were completely dependent on "the State", but treated their position as a monopoly from which to extract maximum personal benefits.

Instead, the economists proposed "re-establishing the individual property rights of workers". A hot debate was in progress on such matters among the Party leaders as well as their theoretical advisers. Underlying it, apart from factionalism, was the fact that traditionally in China, as in Japan, who you are is where you fit in: first in a family/clan hierarchy; then, even more importantly, in the work unit—a surrogate clan, and perhaps more important as a delivery system of social control ("education") as well as of welfare: e.g. housing, or dole paid on the job by overstaffing (the iron rice-bowl syndrome) rather than as a unit producing more goods.<sup>5</sup>

The marketisation and devolution process had now gone far enough to uncover cracks in the system which previously had been papered over by "red-letterhead" administrative

command. These included the huge excess of demand over supply for both producer and consumer goods, with sharp differences in access to them set by status, not money; the low quality of goods, services, and human resource management, etc. And out of the woodwork came "the shrine rats" whom the statesman Han Fei (*ob.* 233 BC) had identified as the chief menace to a State—the "courtiers" who abuse their influence to exploit the people, and slander each other in power struggles. In the nationwide purge which followed the June 1989 massacre, such people are reportedly being smoked out along with the "pro-democracy" elements.

In this third stage of restructuring (October 1987 to late 1988), the Central Committee sought to promulgate a firmer conceptual basis for its experiments (they were only in the long "primary stage" of building socialism), and they added reform of the political and administrative structure to the agenda—in particular, separation of Party and Government responsibilities on the basis of policy vs. execution. At meetings of the National People's Congress, a "democratic atmosphere" (according to the *Beijing Review* of 18 April 1988) pervaded as never before, but a year later the weather was wintry again ("NPC Session stresses Rectification", (*Beijing Review*, 27 March 1989).

Unravelling of economic control had by the end of 1986 led to too much social indiscipline, heresy among the older intelligentsia, and an open rejection of "socialism" in the course of ostensibly anti-Japanese (i.e. anti-corrupt-officialism) student agitation. The Politburo's most forthright "reformer"—Hu Yaobang—"resigned" at an "enlarged" (read: packed) session in 1987, ostensibly for failing to curb the demonstrations; he was replaced as General Secretary by Zhao Ziyang.

The net result of restructuring the collective rural sector had been to increase productivity to the limit attainable under the contract system of net-output delivery by *households* (*baogan daohu*)—in effect, family tenant farming. The equivalent unit in industry, however, was not the family firm (though some of these were permitted to exist), but the bureaucratic enterprise or industrial barony, which was supposedly under indirect control through taxation of its retained profits, in accordance with the idea expressed by Zhao Ziyang to Milton Friedman: "We control the market, and the market controls the economy." In moving away from the previous system (in which units simply handed practically all their surplus over to the State and in return received a capital grant together with detailed orders on how to spend it), a neither-plan-nor-market, horse-trading non-system developed because, in order to work, taxation has to be combined with market and allocation-rational prices.

Though they seem to have understood the problem better than their Soviet colleagues, the Chinese planners were unable to address the root of the problem. They were forced to introduce a host of *ad hoc* taxes in order to correct the distortions resulting from the admittedly irrational administratively-set and -subsidised prices. But these extra taxes were to be raised by the local bureaucracies most closely connected with the enterprises, on what amounted to a medieval tax-farming basis. Banks, also, were unable to refuse credits to the local bosses. In 1987, however, only 6,000 out of 450,000 firms paid the adjustment tax. Small

<sup>5</sup> Covering the silver boom in Nevada, Mark Twain observed (*All Things Chinese*, London, 1892) that a lazy Chinese worker does not exist. But when Singapore's Premier Lee visited the People's Republic he complimented his hosts, so the story goes, for producing the impossible—lazy Chinese. The *Fortnightly Forum* (*Ban Yue Tan*, no. 13, 1988) has confirmed this: "In these overstaffed units, the line between labour and rest is not clear." The reason—"the iron rice-bowl".

wonder that the central Government's percentage of revenue raised (25%) is the world's lowest—the two richest provinces, Guangdong and Fujian, paid nothing at all.

According to the *Farmers' Daily* (quoted in the *Asian Wall Street Journal* for 19 June 1989), widespread tax evasion had created a situation in which the Government had only half of the 20 billion Yuan (US \$5.4 billion) which were needed to buy the current crops of grain, edible oils, tea, and raw silk. Hence the farmers were liable to divert their production from government sales to hoarding, or to the free market where prices were three times as high. Increased coercion would spread unrest to the countryside from the towns—where in complete “disregard for orders and bans” from Peking (as Zhao put it in his Report to the Central Committee on 26 September 1988), massive capital construction and industrialisation, wage rises, etc., had forced thousands of State factories to shut down or run below capacity because of shortages of raw materials and power, transport bottlenecks and so on. Inflation was rising to 40%, many city-dwellers' real incomes were falling—and China's society is now 40% urbanised.

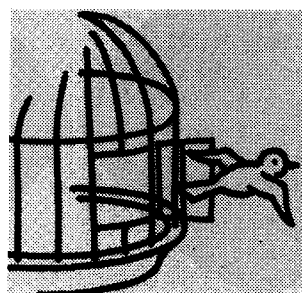
Meanwhile, in the realm of “thought decontrol”, the groundswell of published opinion was exemplified by a six-part television series entitled *He Shang (Demise of the Yellow River)*. It dared to say that in the face of the challenge of “Western” industrial civilisation and the general trend towards a global diffusion of culture, every ancient civilisation faces a crisis. The ancient civilisation of the Yellow River, which had several times been subjected to foreign influences, but never totally succumbed,<sup>6</sup> originated from the need for highly centralised organisation to mobilise tens of thousands of people to carry out water control projects—“the Asiatic mode of production”. “That this sort of situation has continued right up to modern times in China is an unbounded catastrophe.”

The authors of the series were most concerned for reforms, especially price reform, but felt that so far these had done “little more than sprinkle a few drops of water from the deep-blue coloured Oceanic civilisation over the parched yellow earth”. What they meant by “Oceanic” was, of course, the Western system, which relies primarily on markets to assure equality of opportunity, and has an independent legal system to guarantee property and other freedoms. Instead of moving on towards such a system in a fourth stage of the restructuring process, as reportedly urged by Zhao Ziyang in August 1988, at the yearly semi-secret gathering of leaders at the seaside, the Party pulled back from the brink—of success? The cage closed in.

<sup>6</sup> Wang Xiaoliang, Deputy Director of the China Economic System Reform Institute under the State Council, pointed out last year (*Far Eastern Economic Review*, 24 March 1988) that in ancient times Europeans had come to China and copied parts of its system—hence eventually the Renaissance and the birth of capitalism. Chinese reforms did not start in 1978, he said, but in the late Qing dynasty, with swings between, totally embracing the West, and then back to tradition. Compromise must be achieved, but unlike the previous Chinese and present Soviet experiments the reforms this time had started from the grassroots and spread like an epidemic.

<sup>7</sup> E. E. Bauer, *China Takes Off: Technology Transfer and Modernization* (University of Washington Press, 1986).

## The Gilt Coast Strategy



CHINA'S “OPENING to the world”, however, may prove to have been irreversible. From 1978, restructuring was intended to be coordinated in rural, urban, and foreign trade/investment sectors (*Mao-Gong-Nong*); but this was not to be. As a scholar from the People's Republic of China

working in the US put it, the authorities had no idea how to “open the door”. But a great deal was achieved, if not in the way intended.

While more foreign investment came from other Chinese than Peking had expected, some Japanese, US, European, and Australian companies went into major joint ventures inland in China, with varying success. Several withdrew, hurt, before the June 1989 events—for much the same reasons as those officially lamented by the Chinese, but usually only in private by “foreign-devil missionaries of capitalism” in the zones specially set up on the coast to attract them. Legends abound on “How China Turns Businessmen Into Basket Cases”, and books and articles by such people as E. E. Bauer, Boeing's technical representative in China from 1980-85,<sup>7</sup> are reminiscent of the “Japan hands” early this century moaning that “these people never learn”. In fact Mr Bauer does report progress. After wasting US \$300 million trying to copy a Boeing 707, the Chinese gave up. But they had more success with the Australian Nomad aircraft. . . .

At the invitation of the China Enterprise Management Association, an organ of the State Economic Commission (SEC), and other bodies, I have visited north and south China several times during the last few years. There was an electrifying difference in atmosphere from the 1970s, and the obvious change in quality of life from year to year was heart-warming. Those of us who were thus invited to exchange ideas and give seminars on reform of management and administration were struck by the scale of effort and achievement by the senior officials involved—first nine million, then twelve million managers to train! The idea was “to absorb and extract the strong points of all experiences from others in the world”, and to merge them into a specifically Chinese style. Japan was the model—but Japan had started with a different sort of “feudalism”. And, out in the field, it was hard to avoid the impression that some older “economic cadres” and even teachers of something called “management engineering” had not yet got the hang of the new philosophy.

The State Economic Commission set up training centres in various cities, in cooperation with the EEC (Peking), the USA (Dalian), etc., to observe their various methods. As the Dean of the EEC operation noted, the view of management as a branch of engineering—“as technical problem-solving”—was a legacy of the now discarded Soviet model, in which prompt achievement of physical output targets was the sole legitimate aim of enterprise managers. Their “people



management", he said, could best be described as industrial feudalism. Because of the patrimonial rather than rational-legal nature of the mandarin state (as seen by Max Weber), its functioning did not reflect the impersonal application of rational rules:

"The result is a continuous tendency towards the fragmentation and isolation of organisational units, a very parochial outlook, and considerable difficulty in integrating and coordinating large-scale activities."

Mao called it "mountain-top-ism", but it is not unique to the People's Republic of China.

A Canadian colleague warned against the emergence of a new mandarin state; its power-through-knowledge narrowly based in technology would be "as dangerous and authoritarian as the old", without the breadth of understanding that classical literary and philosophical thought had conferred. Not only quantitative methods but *judgment* is the key to achievement of modernisation, and if innovation and creative management are to be possible, legal reform and trust in due process and fairness of law must also be realised.

**D**ESPITE THESE AND many other problems, a total of US \$11.5 billion of foreign capital was invested in the People's Republic of China during the period from 1979-89, and many forms of cooperation developed—such as processing trade, compensation trade, contractual or equity joint ventures, and even wholly foreign-owned subsidiaries. Between 1979 and September 1988, the PRC had itself invested US \$650 million in some 500 projects in almost 80 countries on all continents—the scale ranging from small restaurants to the Huanyu colour-TV joint venture in Britain and the giant Channar iron-ore mine in Australia which is capable of producing ten million tons a year. Between 1980 and 1987, foreign trade increased by 120%, and the Department of Policy Research and System Reform at the Ministry of Foreign Economic Relations and Trade (MOFERT) detailed in March 1989 how China was opening its doors still wider to the world, in spite of the retreat from restructuring imposed since September 1988.

Peking had let go its administrative instruments of control, on the assumption that "The market controls the economy, and we control the market" (via its commanding heights), but thanks to the shrine rats it was more black than market. From the outside world's point of view, the problems were exemplified by what was happening in the Special Economic Zones, which were ahead of the rest of the PRC in "reform".

Under a decision by the Party centre in 1979, four Special Economic Zones had been set up; in Shenzhen (Shumchun, contiguous to Hong Kong), in Zhuhai (near Macau), in Shantou (Swatow), and in Xiamen (Amoy) across from Taiwan. (Part of the Shenzhen Zone came to be a model, because it was managed by only one "mother-in-law"—the China Merchants Steam Navigation Co., which is wholly owned by China's Ministry of Communications, but operates out of Hong Kong.) The key to the agenda was *wai-yin, nei-lian*: draw in from the outside, and link up (or trickle down)

to the interior. In other words, the Zones were to act as a step-down transformer for the high-tension current of capitalist technology, funds and lifestyle in Hong Kong; they were to use foreign inputs and export earnings to get raw materials from the hinterland and thus stimulate enterprise there.

At first sight, with their experimental legislation and regulations for joint ventures, the Zones seemed to imitate successfully the main features of free trade or export-processing zones in places such as Taiwan, Sri Lanka or Darwin: tax holidays, cheaper labour, and so on. . . . But in practice everything was negotiable, and squeeze—"pier tax", "bridge tax", etc.—was applied by the local cadres.

Similar if more limited incentives were offered in 1982 to Hainan Island (promoted from being merely a part of Guangdong to separate status last year) and in 1984 to fourteen coastal cities, of which only four went ahead with priority—Guangzhou (Canton), Shanghai, Tianjin (Tientsin—the port of Peking), and Dalian in the north-east (once known as Dairen or Port Arthur). Of these, Guangzhou and its province became the foremost, heading in the Zhujing (Pearl River) an "open" economic zone set up in 1984 along with the "Golden Delta" in south Fujian, which centred on Xiamen, and the Changjiang (Yangtze) delta, centred on Shanghai and Jiangsu province.

Zhao Ziyang, who had a long connection with Guangdong province, always took a strong interest in Shenzhen, encouraged by Deng Xiaoping, who took initial responsibility for the experiment. While he was Premier, Zhao stressed that the aim of the Zones was not to create employment, but to attract foreign funds and technical and managerial skills. The hidden political agenda was "United Front Work"—the plan to draw Hong Kong, Macau, and eventually Taiwan into the fold by developing economic linkages and proving that Peking could run capitalistic enclaves.

In the event, much of the investment came not from major industrialised countries but from compatriots outside China, largely through Hong Kong; and it was concentrated in real estate, tourism, and low-technology, labour-intensive industry. So many workers were attracted to Shenzhen by the wages and conditions that an 84-kilometre fence had to be built on the border with the rest of China, with six checkpoints to control the influx.

**T**HE OFFICIAL China System Reform Institute, a think-tank reporting to the State Council, brought out a report last year which speaks volumes. Behind the modern façade, it said, Shenzhen still operated with a command-style hierarchy, excessive political interference in economic activity, and unfair competition generated by monopolies, personal connections (*guanxi*), and politically-linked economic favours. Price, market, and planning reforms touch only the surface of the old order . . . hence political as well as economic reforms were essential if Shenzhen was to be an effective cushion between Hong Kong and China.

Some progress had been made towards the market, but traditional values and ways had also infiltrated—for exam-



ple, Shenzhen still used the old-style red-letterhead official chits to regulate most economic and social activities. As the Hong Kong *Far Eastern Economic Review* comments, such documents, which are used at all levels of the Chinese bureaucracy to transmit official information and policies, are usually ambiguous, incomplete, and not legally binding. It is expected that the spirit of the policy outlined will be grasped through a reading of the prevailing political climate.

Peking saw the Special Economic Zones as a means to use, restrict, and transform (Finlandise) Hong Kong, Macau, and Taiwan. But as in Eastern Europe (e.g. Poland and Hungary) it was reverse Finlandisation which was demonstrated by "the Shekou incident" of January 1988. Three Commissars from the Peking Research Centre for the Ideological Education of China's Youth came down for a symposium put on by the China Merchants Steam Navigation Company. Some 70 locals ridiculed the northerners' one-way Party rhetoric. One of them said, "We have more freedom here. The central government is far away!" Asked by the northern cadre if he dared reveal his name, the youth handed over a business card.

After some furore over this in the Party press, the head of the CMSNC told the *People's Daily*:

"One, we don't welcome empty preaching as if from master to pupils. . . . Two, I am all for the principle, 'I don't agree with you, but I will try every means to defend your right to express different opinions'."

This episode may frighten a few old men in Peking, but from the viewpoint of the masses was it not another liberation?—this time from below, through the spread of purchasing power and information and largely thanks to Hong Kong.

THE CHINESE and their capitalist partners have, of course, been dreaming different dreams in the same bed. In 1895, the great reformer Kang Yuwei pointed out that, "As to foreign trade, obviously China has to meet the competition from the West and Japan by developing her own products, by boosting native Chinese trading companies, by studying Western business methods, by translating Western business texts and developing the teaching of marketing skills". (The Dowager Empress purged him after 100 days of reform, thus ensuring the demise of the Manchu dynasty.)

The 1842 Treaty of Nanking, which ceded Hong Kong to Britain, led to its development from a "barren rock" to the international financial and trading centre of today.<sup>8</sup> One of the arguments now used to justify the surrender of Hong Kong's territory, regardless of its people, to the State which

presently controls Peking (not the same one that signed the treaties at issue) is that it lays such golden eggs. China's Foreign Minister, Qian Qichen, has said that it is irreplaceable. (But, now we know that Peking has other priorities, what about Canton?)

A few figures suggest Hong Kong's importance to the people of China, especially to Guangdong whose growth rate is expected to reach a respectable 20% this year (after overshooting to 31% in 1988). In addition to tens of thousands of outward-processing and compensation trade projects, there are now several thousand joint-venture factories with Hong Kong in Guangdong alone. They account for between 40-60% of realised direct foreign investment in China (totaling US \$18.9 billion from 1979-88); and as many as two million people in Guangdong are working for Hong Kong-owned businesses which, due to the lack of infrastructure on the Chinese mainland, largely depend on Hong Kong marketing, design, and sourcing of components.

With the advent of China's biggest black market which, as well as multiple prices, uses three currencies—*Yuan*, foreign exchange certificates, and Hong Kong dollars—has come a new life-style. Surveys co-sponsored by MOFERT and a Hong Kong firm found that 77% of households in Canton had electric rice-cookers, as against 1% in Shanghai and 2% in Peking. According to the Hong Kong journal *Cheng Ming*, some of China's leaders fear that by 1997—when Hong Kong and its territories are due to be returned to mainland China—there will be "a Shenzhen modelled on Hong Kong, a Guangdong modelled on Shenzhen, a whole country modelled on Guangdong".

Before the June events, Guangdong had the highest living standards and export earnings in China, and the freewheeling provincial authorities hoped to quadruple their 1980 output by 1990, five years ahead of the other provinces. They had already perfected the art of echoing Peking's decrees and acting to the contrary, so it remains to be seen how the ban on imports of "new opium"—Marlboros, Scotch whisky, etc.—will be handled.

The dissident journalist Liu Binyan and others who escaped the "crackdown" foresee another of those periods in Chinese history in which the writ of the Northern government does not run far south. But decentralisation need not mean chaos. Hong Kong is there to show how prosperity can be built on law and on an administrative system which has been more consensual than appears from outside.

IN VIEW OF the public awakening and debates in its Legislative Council, Hong Kong can and must receive from the People's Republic of China a bullet-proof guarantee in the form of democracy, a Bill of Rights, and protection from those implications of the Sino-British Joint Declaration and "Basic Law" which have become unthinkable—such as Peking's right to send in its Army to suppress "turmoil".

"Right of abode in the UK" is a red herring. As the members of the Legislative Council have pointed out in the document *Hong Kong is Our Home*, what the 3.25 million British (and therefore EEC) citizens want is protection in that home, not a right to exile. For the other inhabitants too, pride in their Chinese heritage need not imply subjection to

<sup>8</sup> It also turned the heads of the staid cutlers of Sheffield. They sent out a large consignment of knives and forks for sale to the millions of Chinese who, for their part, claimed to have abandoned the use of such articles when they became civilised. A London piano-maker sent out an equally large consignment, in the expectation that, out of 200 million Chinese women, one in 200 would want a piano in her parlour. . . .

whoever occupies Peking, legitimately or not. On 30 June, Dame Lydia Dunn quoted to the Foreign Correspondents' Club the words of the late newspaper columnist Tsang Kifan:

"This is the only Chinese society that, for a brief span of less than 100 years, lived through an ideal never realised at any other time in the history of Chinese societies—a time when no man had to live in fear of the midnight knock on the door."

But journalists have much to answer for in perpetuating muddled thinking about the "return" of Hong Kong to "China"—the name of a geographical and/or cultural area not to be confused with the political entities which have risen and fallen in it over time.

I wrote in 1965 that, "The interests of the world at large require that Hong Kong should on the one hand receive adequate outside assistance in solving its economic problems and, on the other, that anomalies in its status, and that of its residents, should be removed by suitable international arrangements and internal political development"—i.e., by democratic self-government, which I believed would prove an even more valuable example than its economic success. Is this not still the case?<sup>9</sup>

Kang Yuwei rightly pointed out, in 1898, that:

"At present, in an age of international rivalry, it is not a unified world [like China after 221 bc]. But our present [Qing dynasty] laws and bureaucratic system are the institutions of that unified world and they are the causes of China's present weakness and even collapse. Indeed,

<sup>9</sup> W. A. C. Adie, section on Hong Kong in Guy Wint, ed., *Asia Handbook* (Anthony Blond, 1965, Penguin 1969). On China's opening to the world and the role of Hong Kong, I have written in more detail for a forthcoming issue of *International Relations*.

<sup>10</sup> Athanasius Kircher, *China Illustrata* (Amsterdam, 1677), p.164: "Tum naturae tum ingenii politici artibus ita instructum est, ut a reliquo orbe prorsus separatum, absolutum mikrokosmon a nullo altero dependentem constituere videatur."

"[China] was so skilled in the arts of natural and political philosophy, that it seemed to constitute a microcosm, completely separate from the rest of the world, self-contained, and dependent on no one else."

See also my article on China and the International System, *Lugano Review*, no. 3 (1975).

<sup>11</sup> Li Jiquan, "More on reunification of Taiwan with the Motherland", *Beijing Review* (vol. 32, no. 3), 16 January 1989; *Business Week*, September 19 1988.

they should all be abolished."

As a present-day Chinese scholar has observed, the "Western" nation-state system owes much to the Qing model as purveyed by the Jesuits, Leibniz, and other *philosophes* who were perfectly aware that it was a *mikrokosmos* separate from the rest of the world.<sup>10</sup>

Mao Zedong himself said that China was a United Nations in itself. Now we have one world for which the nation-states' laws and bureaucracies are equally anachronistic, not thanks to the United Nations Organisation, but because (as the *Beijing Review* quoted Chinese scholars in the PRC, Taiwan, and Hong Kong discussing) the new international system now emerging of its own accord is based more on economic regions and on corporations networking across borders, than on political divisions. A loose federation of such regions already exists *de facto* in the Chinese cultural area. Professor Chen of Hong Kong University says that the economies of China, Taiwan, and Hong Kong are already very integrated, through Hong Kong, without any need for negotiations on political reunification, which he sees as almost impossible in the near future. Quoting the same source, the international magazine *Business Week* ran a feature in September 1988 about the "Rise of Greater China as an Economic Power"; it was subtitled "Potent mix: China's labour, Taiwan's skills, Hong Kong's financial might".<sup>11</sup>

It should have mentioned something more. For perhaps Deng is right when he argues that China is too big to be run Western-style from Peking with separation of powers (we want one, not three governments!), but he is also right in calling, reportedly, for "many Hong Kongs" to flourish on the coast. Flowers can be cut, but not grown from horseback; tanks, surveillance cameras, and ring-in denunciations can only cow those within range; Genghis Khan has a telephone, but thousands of Chu Yuans, Kang Yuweis, and Sun Yat Sens—people with knowledge and principles—now have access to shortwave radio, fax, and satellite TV, or are out of reach abroad. They are now the best hope for the development of a market-based "federal China" of the people, by the people, and for the people as suggested by various scholars.

After the June massacre, an unknown announcer on Radio Beijing joined Yang Xianyang—the famous translator of Lu Xun (with his wife Gladys)—in "denouncing the barbarous repression". When asked by a Western journalist whether it was not risky to speak in these terms, Yang said on air that the authorities could put him on their list: "We are 1,000 million Chinese, and they can't kill us all."

All the invaders of Peking have to do is dismount—and let the people get on with it. . . .

# *John Lancaster*

## Pure Research

He has progressed  
from lefthandedness  
and righthandedness  
in mice to studying  
the movement patterns  
of a snake's head.  
This is a collaboration  
at the Sorbonne, Paris:  
a term each year.  
A professor, his teaching  
is in Toronto where  
each night he buys  
a bottle of brandy  
then drives ten miles  
to the cabin they built  
on the edge of the forest.  
In his absences, she  
has taught herself batik  
and other techniques  
of surface pattern.  
She has started to sell.  
By midnight, she sleeps  
while he, awake, tries  
to discover just why  
she wants to leave him.

## Carriage Clocks

### I

She stooped to kiss Felicity,  
fought the tears as she fumbled  
with the wrapping. Folding back  
the tissue paper, she gave its face  
a long, cold stare, then held it up  
for all the school to see.

"Thank you all so much. I shall miss  
you children—the staff less so.  
But, seriously, I shall think of you  
all when I look at this on my mantelpiece  
though I'm glad to say I shall not  
be living to a time-table any more.  
Twenty-three years here is enough  
for any one. Thank you all again."

After the prayer, she put it in its box  
for the last time, shutting out  
the scrape of chairs on the hall floor  
and the fading echo of small voices.

### II

"And for productivity in 1988—Geoffrey Baldry."  
She hangs the suit he bought for the presentation.  
The bedroom is silent except for the quiet ticking.  
She glances towards the dressing-table.  
He is working very late again this evening.

### III

They picked all the flesh from his services,  
left his carcass to enjoy retirement. But first,  
the collection. Then they ticked one off  
in the typist's catalogue, from the cheapest range.

"H. Samuel. Only the best for the best.  
They must have thought a lot of you",  
said his wife, dusting again.

Doing one for yes and two for no since the stroke,  
he nodded twice without shifting his stare  
down the unkept garden to where a pigeon  
was pecking, pecking at the bone-hard earth.