

Inflation haunts Chinese government

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5 January 2011

Chinese Premier Wen Jiabao has attempted to defuse social tensions over inflation and housing costs with a series of promises that the government will control price increases. Wen's actions demonstrate the fears within the ruling Chinese Communist Party (CCP) that deteriorating living standards will propel the multi-millioned Chinese working class into political struggle.

In a talk show hosted by China National Radio on December 26, Wen pledged he would control rising house prices by building government-subsidised public homes, providing rent assistance and curbing rampant real estate speculation. In an apologetic tone, Wen admitted that he had failed to fulfill a promise to the "broad masses" that he could keep housing prices at a "reasonable level". The premier particularly pointed to the difficulties facing middle and low income earners in buying a home, but declared the lack of affordable housing was due to over-population and insufficient land supply.

In reality, the real reasons for the housing crisis lie in the measures taken by the Chinese government to stave off an economic slowdown following the 2008 global financial crisis.

Terrified of the social consequences of any increase in unemployment, Beijing ordered state banks to make available trillions of yuan in cheap credit to stimulate economic activity. A vast amount of capital was channeled by various businesses into property speculation, driving up prices. Since then China's housing prices have skyrocketed, most dramatically in the southern industrial hub of Guangzhou, where they soared by 38 percent in the past year. A frenzied boom is taking place in construction and other industries, but speculators are leaving vast apartment buildings empty in the hope of gaining a higher resale price, keeping millions of urban workers out of the housing market.

A joke circulating on the internet points to the immense frustration and anger building up. To buy an apartment in

Beijing for about three million yuan (\$US450,000), the joke goes, a peasant working on an average plot of land would need to have been working since the Tang dynasty—1,300 years ago. A factory worker on an average monthly wage would need to have been working since the Opium War in 1840, including on weekends.

Housing prices have reached such astronomical levels that the speculative bubble could burst, unleashing a financial crisis within the Chinese banking system and for numerous local governments that are heavily involved in real estate.

At the same time, significant areas of agricultural land have been handed over to developers, causing a slowing in food production and pushing up the price of basic goods. In November, China's consumer price index rose 5.1 percent year-on-year. Food prices, however, rose as much as 11.7 percent, with the price of grain soaring 14.7 percent, cooking oil 14.3 percent, fruit 28.1 percent and eggs 17.6 percent.

As most Chinese households spend the majority of their incomes on food and other necessities, these price increases represent a serious erosion of their living standards.

Conscious of the role of inflation in driving the working class into social struggles, such as the movement in May-June 1989 and the wave of strikes of auto and electronics workers in May-June last year, the CCP regime is particularly sensitive to rising prices.

When questioned online about price rises in 2010, Wen admitted that they had caused hardship for low and middle income earners. He promised "we are fully able to control the overall level of prices" and called for "confidence" in the government.

In another attempt to show state concern over the hardships facing working people, President Hu Jintao toured some of Beijing's poor neighbourhoods on December 29 and called for the construction of more subsidised homes for low-incomes families. Hu also declared that authorities had

to ensure a stable supply of vegetables and other necessities into the capital, in order to keep prices down.

Despite the efforts of the regime, reports issued by the Chinese Academy of Social Sciences (CASS) and the People's Bank of China on December 15 show that the population is losing faith in the government.

A "Social Blue Paper" issued by CASS warned that despite the Chinese economy growing 10 percent in 2010 to \$5.56 trillion, people felt less content than in previous years and more worried about the future. Residents in rural areas and small cities, which account for the vast majority of the population, were particularly dissatisfied with their lives. The Blue Paper warned that the public was losing confidence in the government's capacity to handle economic, social and even foreign policies. It pointed out that a measure of "national pride" over China's rising international status had fallen back to its 2006 level, the point at which it had started to rise.

The Blue Paper admitted that the chief source of this falling confidence in the government was that people's incomes were lagging behind GDP growth, inflation and housing prices, as well as the lack of a functional social security system and the widening gap between rich and poor.

The central bank report also found that popular satisfaction with consumer prices had fallen to its lowest level since 1999, with 74 percent of people believing prices were "unreasonably high" and 76 percent regarding housing prices as "too high".

There are already signs of a rebellious sentiment developing in sections of the working class. Little reported by the international media, workers have staged strikes to try to win higher wages. A Chinese labour rights group told the *South China Morning Post* that at least three strikes had taken place in Shenzhen in Guangdong province, prior to the staging of the Asian Games there. Police intervened to break up two of the strikes—one on October 26 at a Shenzhen Ricoh Elemex plant, which manufactures quartz watches, the other at the Sanyo Huaqiang in Longhua district, on November 12.

A workers' representative from the Honda auto parts plant in Foshan, where workers launched a two-week strike last year, told the *South China Morning Post* that while his basic wage had been increased from 995 yuan a month to 1,300 after the strike, price rises had already eroded these gains. "Rent has shot up to 300 yuan for a shared apartment," he

said. "Food, plus energy bills and mobile phone, total as much as 1,000 yuan. I have to deprive myself of all sorts of entertainment to save a couple of hundred a month to take home during the Lunar New Year."

The day before Hu's visit to Beijing's poor, the minimum wage in the capital—the de-facto basic salary for millions of migrant workers—was suddenly lifted by 20 percent to 1,160 yuan (\$US172) a month. The move was aimed at placating discontent, but will have little impact.

The average minimum wage paid to the 200 million migrant workers across China is around 1,500 yuan. A Hong Kong Polytechnic University professor Pun Ngai warned that even if workers' wages were lifted by as much as 30 percent, "it is not enough for them to make a living in the cities". Pun predicted that more intense labour unrest and strikes would occur in 2011.

Little in the way of wage rises can or will be made. Beijing's response to inflation has been to tighten the supply of credit and increase interest rates over the past two months, thereby slowing economic growth. At the same time, the ongoing turmoil in Europe—China's largest export market—and weak consumer demand in the US mean that the country's manufacturing sector is struggling with overcapacity. Liu Mingkang, chairman of the China Banking Regulatory Commission, warned in December that "there is overcapacity for most industrial goods in the Chinese market and it's impossible for upstream inflation to be transmitted downstream."

In other words, manufacturers are unable to pass on higher costs in the form of higher prices, thus leaving them little room to grant wage rises to workers whose living standards are being eroded by inflation.

Behind the rhetoric of Premier Wen and President Hu, and their public display of concern for the plight of ordinary people, lies their growing fear that the regime is on a collision course with the working class.



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