

environment of broad existence of monopolies, cheating and sudden huge profits, in case of currency deflation, the monopoly section of the economy would reduce production and raise prices to seek a high profit, while the non-monopoly section of the economy would shrink with the economic contraction.

The third reason, is investment inflation, which is hard to check. Both demand inflation and price monopoly in China reflect a common nature, as the various interest groups scramble for resources in an unfair way, thus creating a comprehensive social crisis. There are, principally, five kinds of "interest groups," as follows:

1. The central government, which has decentralized a considerable part of economic power after the reform.

2. The local governments, which have gained considerable power and become the biggest beneficiaries since the reform. The local governments' increase in power has brought prosperity to local economies, with the appearance, on the other hand, of duplicate construction and investment inflation. Local blockades are thus hampering the formation of a unified national market and thorough implementation of the industrial policy of the central government. Each local government scrambles for resources with investment inflation, as a means to strive hard for high-speed and high-income development of its locality. At the same time, this is transferring inflation to other localities.

3. The economic departments in charge under the central government. After the practice of the contract responsibility system of industries, many of the departments have their own economic interests and established a large number of companies. In the resistance to purchasing property rights by foreign capital, in seeking State protection in terms of departmental tariffs and non-tariffs, in "seeking rent," and monopoly business, this is a force capable of influencing policymaking of the central government. Meanwhile, the appearance of monopoly prices also pushed up domestic inflation.

4. The State enterprises.

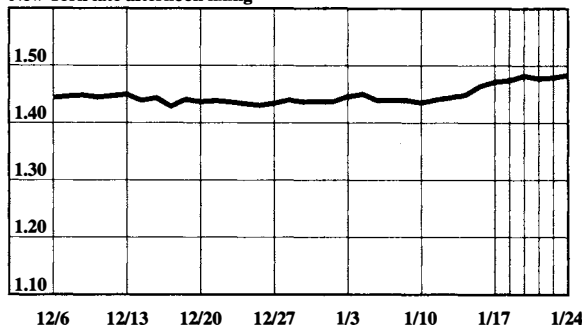
5. Individuals, who play a stronger economic role. The savings rate of the population has been maintained above 40%, with a continuous increase of savings over consecutive years. This is the key to ensuring high accumulation.

In the process of rapid economic prosperity, the various interest groups have undergone considerable diversification. The lack of standardization in behavior, produced the social problems of corruption, monopolies, cheating, sudden huge profits, and damage of resources, accompanied with the drop in ability to maintain social control. Meantime, each interest group adopted various unfair practices in pursuing its interests. Besides seeking special protection and privileges from the government, one of the unfair practices is to scramble for resources by gaining sudden huge profits through raising prices or by investment inflation. Therefore, the real nature of worsening inflation in China is lack of an integrated mechanism for effective, open, and legalized regulation of the interests of various interest groups.

Currency Rates

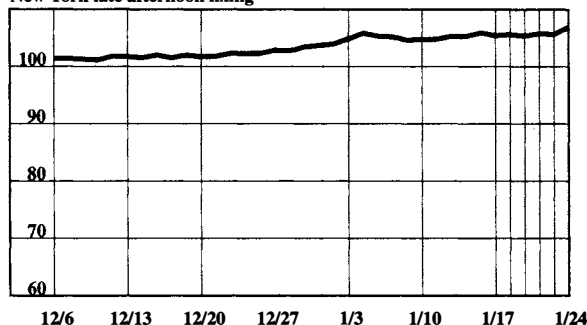
The dollar in deutschemarks

New York late afternoon fixing



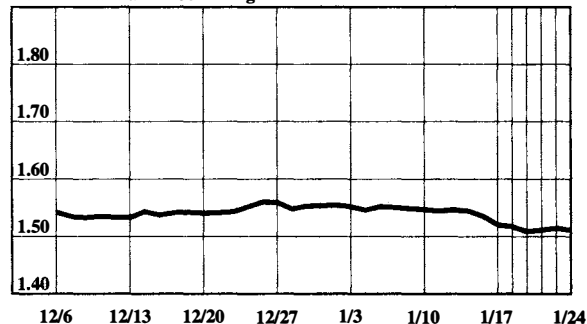
The dollar in yen

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



The dollar in Swiss francs

New York late afternoon fixing

