



**SELECTED WORKS  
OF  
CHEN YUN**

**Volume II  
(1949-1956)**

WORKERS OF ALL COUNTRIES, UNITE!

SELECTED WORKS  
OF  
CHEN YUN

**Volume II**

**(1949–1956)**

*Translated by*

The Bureau for the Compilation and Translation  
of Works of Marx, Engels, Lenin and Stalin  
Under the Central Committee of  
the Communist Party of China

FOREIGN LANGUAGES PRESS  
BEIJING

First Edition

1997

The present volume is a translation of the second Chinese edition of the *Selected Works of Chen Yun*, Volume II, published in May 1995 by the People's Publishing House, Beijing.

Hardback: ISBN 7-119-01691-1

Paperback: ISBN 7-119-01693-8

© Foreign Languages Press, Beijing, 1997

Published by Foreign Languages Press  
24 Baiwanzhuang Road, Beijing 100037, China

Printed by Beijing Foreign Languages Printing House  
19 Chegongzhuang Xilu, Beijing 100044, China

Distributed by China International Book Trading Corporation  
35 Chegongzhuang Xilu, Beijing 100044, China  
P.O. Box 399, Beijing, China

*Printed in the People's Republic of China*

## EDITOR'S NOTE ON THE SECOND EDITION

The *Selected Works of Chen Yun* (1949-1956) was published in 1984. With the approval of the author, the second edition is issued and the book is renamed the *Selected Works of Chen Yun* (Volume II).

In the second edition, a few changes have been made in wording and punctuation of the text and footnotes and in some notes.

Editorial Committee for Party  
Literature, Central Committee of  
the Communist Party of China

February 1995

## EDITOR'S NOTE

This volume contains fifty-two important pieces written by Comrade Chen Yun during the period from August 1949 to July 1956, most of which have never been published before.

From the founding of New China in 1949 to 1956, the Chinese people of all ethnic groups, under the leadership of the Communist Party, accomplished the historic transition from New Democracy to socialism, achieving great successes in all fields. Comrade Chen Yun's speeches and reports during this period are a record of China's experience in the rapid economic recovery, the planned economic development and the socialist transformation of private ownership of the means of production. They also reflect his remarkable contributions to those endeavours.

This collection complements the previously released *Selected Works of Chen Yun (1926-1949)*. Like the earlier volume, it was compiled by the Research Department of the Secretariat of the Central Committee of the CPC and checked and revised by the Central Committee's Party Literature Research Institute.

The entire [Chinese] text was reviewed by the author himself.

The Editorial Committee for Party  
Literature, Central Committee of  
the Communist Party of China

April 1984

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## HOW TO OVERCOME OUR SERIOUS FINANCIAL AND ECONOMIC DIFFICULTIES

*August 8, 1949*

Our country, particularly the southern front, is suffering financial and economic difficulties that have arisen in the course of our advance.<sup>1</sup> These will not be completely overcome until we finally win the war.

The War of Liberation is still under way in vast areas of the country. Most of the expense of sustaining the war and supporting more than six million personnel not engaged in production has been defrayed by issuing bank notes. By the end of July notes had been issued to the tune of 280 billion yuan.<sup>2</sup> The greater part of this money was spent on food and clothing. Shanghai, a big city where much industry is concentrated, faces great difficulties at present, but we must bear in mind that this situation will gradually improve. Barring extraordinary circumstances, the whole country, with the exception of Taiwan, Tibet, Xikang,<sup>3</sup> Xinjiang and Qinghai, can be liberated between this winter and next spring.<sup>4</sup> That will bring the population in the liberated areas to more than 440 million. We must not lose sight of this prospect. We should try not only to surmount our current difficulties but to find solutions to our financial and economic problems for the country as a whole. Otherwise, these problems will have a negative impact on the national economy and on the people's lives.

Now I should like to discuss the present problems in Shanghai and to propose some solutions.

1. *The problem of the enemy blockade.* We should be prepared for the imperialists to impose a long-term blockade on us, not only using warships,

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Speech at a conference of leading cadres of the financial and economic departments from east, north, central, northeast and northwest China, held in Shanghai from July 27 to August 15, 1949. Comrade Chen Yun presided over the conference, which was a major event on the eve of the founding of the People's Republic. At that time, Comrade Chen Yun was a member of the Political Bureau of the CPC Central Committee and alternate member of the Secretariat of the CPC Central Committee and took charge of the work of the Central Financial and Economic Commission.

combat planes and underwater mines as at present, but also boycotting our exports and refusing to sell us what we need. Of course, there can be no watertight embargo against us; we can import and export a limited amount of goods through Hong Kong. And when Guangzhou is liberated, we shall have a trade route in the south. Moreover, there are contradictions among the imperialist powers that we can take advantage of, for while some of them may refuse to trade with us, others may still be willing to do so. We have trade routes in the north too—there are outlets in Tianjin, Dalian and Manzhouli. We can ask foreign businessmen to sell some of our goods on a commission basis. We should also be prepared for financial losses. Why? Because the prices of export commodities are determined by market conditions abroad, not by domestic production costs. Where financial resources permit, we should purchase the principal export goods from the countryside in order to support the rural economy. This will greatly benefit the peasants.

2. *The problem of the relocation of factories.* We have to be careful about this. Overcoming current difficulties and building for the long term should be treated as two separate things. We should not move factories elsewhere simply because they are having problems. It is not easy to fulfil all the economic conditions necessary for the relocation of a factory. For example, as far as the supply of raw materials is concerned, we can move a textile mill to a cotton-producing area. But the mill will still need appropriate buildings, electric power, machine-building plants and other enterprises to support it. These conditions are not necessarily present in a cotton-producing area. As I see it, the key factories in Shanghai will have to remain where they are; for the present they should do their utmost to maintain production.

3. *The grain problem.* The price of grain has risen at least twice as much as that of other ordinary commodities. For instance, the percentage increase in the price of rice has been more than twice as great as that for cotton yarn and cloth, pork, eggs or rubber shoes. The rise in the price of grain affects the cost of industrial production and the prices of other commodities. Shanghai needs at least two million kg. of rice every day (that is, an average of 10.75 kg. per person per month for a total population of 5.5 million). Since wheat flour is cheaper than rice, twice as many people as before are consuming it now, and the amount sold daily is estimated to be the equivalent of 400,000 kg. of rice. In addition, lately we have been putting about 400.0 kg. of rice on the market every day. The monthly sales of rationed rice and those through other channels amount to 15 million kg., or an average of 500,000 kg. per day. Actually, the three types of sales together come to a daily total of some 1.3 million kg., which means a shortage of 700.000 kg. every day. This shortage is made up by drawing on the

emergency rice reserves stored by the people of Shanghai during the Kuo-mintang occupation. Of course, such reserves don't amount to much, and they can be readily replenished if grain supplies are readjusted satisfactorily. Although the price of rice in Shanghai reached an all-time high on July 18, it has now dropped a little. We believe we have passed the peak for this year, but we should be prepared for all eventualities. In fact, the early rice crop is harvested in the Changzhou-Jiaxing region 40 days later than in other places south of the Yangtze River. In the area west of Changzhou and in Wuhu and northern Anhui Province it has already been reaped, and the price is lower there than in Shanghai. If rice from these areas were transported to Shanghai and then followed 40 days later by rice from the Changzhou-Jiaxing region, the grain problem would be as good as solved. Even if none of these supplies are forthcoming, we can still take other measures. We plan to ship in 60 million kg. of grain (30 million in September and the same amount in October) from northeast, central and east China. Sales of rationed and unrationed grain during the past two months show that 30 million kg. is enough to meet monthly needs. The authorities in other parts of east China should not prevent their rice from being transported to Shanghai. I have been told that the authorities of northern Anhui, Changshu and Wuxi do not allow grain to be shipped out of their areas. If this is true, I hope they will reverse their policy. Central China should not impose an embargo on east China either. No areas should restrict the shipment of grain; it should be allowed to move freely to ensure that supplies reach Shanghai. Next year we plan to amass 300 to 400 million kg. of rice in the Changzhou-Jiaxing region to meet Shanghai's needs at all times. If there are serious floods, we shall draw on the grain reserves of northeast China.

4. *The cotton problem.* It is good that over the past few months our cotton mills have kept operating around the clock for three or four days a week. If they continue to do this from August to November, they will need 790,000 *dan* of cotton [1 *dan* = 50 kg.]. The China Textile Corporation will use 360,000 *dan*, the privately owned textile enterprises in Shanghai 400,000 *dan*, and those in Qingdao 30,000 *dan*.<sup>5</sup> The needed cotton will come from the following sources:

- 230,000 *dan* now stored in Shanghai and 20,000 stored in Hong Kong by the China Textile Corporation;
- 100,000 *dan* now stored in Hong Kong by the private textile mills and another 50,000 that they can purchase there;
- 14,000 *dan* held by the Shanghai Trade Department and 72,000 held by the former Economic Co-operation Administration;<sup>6</sup> and
- 180,000 to be purchased from other places in east China, 100,000

from north China, and 30,000 from northwest China.

These supplies will total 796,000 *dan*. We have already assigned quotas to the various localities for the purchase of the new cotton crop, and we hope the new supplies will begin to flow in towards the end of November. We plan to reduce the amount of rural hand-spun yarn purchased and replace it with machine-spun yarn. To compensate the peasants for this financial loss, we shall lower the price of cloth. Next year we expect to purchase 3 million *dan* of cotton from north, central and northwest China and 1.8 million from other parts of east China, making a total of 4.8 million. If this can be done, the cotton mills will have about the same amount of cotton this year as last, if not more. The purchasing quotas will be passed down by the Central Financial and Economic Commission, and state-owned enterprises will be expected to work together with privately owned ones in fulfilling these quotas.<sup>7</sup> It will be very hard to purchase the necessary amounts of cotton, but it can be accomplished if all sectors make concerted efforts. All the other regions should generously help east China. But even if we have the raw cotton, we may have problems next year exporting cotton yarn and cloth and selling them on the domestic market. We'll deal with these questions at a later date.

5. *The problem of transport.* More commodities (chiefly coal, grain and cotton) have been brought into Shanghai than have been shipped out (chiefly cotton yarn, cotton cloth and cigarettes). Coal makes up the bulk of the incoming freight volume. As far as railway transport is concerned, Shanghai faces far greater difficulties than northeast China. Ferrying at Pukou constitutes a bottleneck, because the railway section between Bengbu and Pukou allows the passage of only fourteen or fifteen trains in each direction a day.<sup>8</sup> We should try to increase the capacity to sixteen to eighteen trains a day, seven of which should be used for hauling coal, three for grain, two for military supplies and the rest for other freight as well as passenger traffic. At present, in order for one train to give the right of way to another, it has to run very slowly for a long distance; also, the dispatching of trains is inefficient, and communications equipment is inadequate. We should shorten the distance required for one train to let another pass, provide more points for shunting, lengthen feeder lines, expand communications facilities and speed up loading and unloading so that trains don't stand idle for so long. Dispatchers should be highly skilled, because their work is very difficult—they have to deal with commodities coming from many different parts of the country where different management systems are used. The East China Financial and Economic Commission should recognize the importance of transport, make sure the work is well organized and set up a special office to

take charge of it. The East China Bureau of the Central Committee of the Communist Party should make a point of discussing this question. Work related to air raids is also very important. For one thing, trains should be equipped with anti-aircraft weapons; for another, they should be dispersed instead of being concentrated in one place. In short, transportation is a major problem, and unless it is solved, it will be extremely difficult for us to ensure adequate supplies of coal, grain and cotton for Shanghai.

6. *The problem of industrial production.* Every effort should be made to keep in operation two-thirds of Shanghai's key industries (textiles, printing and dyeing, cigarettes, and so on). Cigarettes produced in east China can be sold across the country. This will help Shanghai's cigarette factories resume production and will also increase our tax receipts. Flour mills should continue operating. As for the many hardware factories, they employ only about ten thousand workers. We can keep them going by using them to repair railways and build ships. These tentative ideas may not all be feasible, but we can put them into practice and see how they work. We can no longer tolerate the sort of thing that went on in Shanghai before liberation, when government functionaries and merchants worked hand in glove, embezzling public funds and engaging in speculation. The chief aim of transforming the old Shanghai is to restore production and keep it growing steadily.

7. *Monetary problems.* Now that a uniform currency is in circulation in areas south of the Great Wall, we must take the overall situation into account when dealing with monetary problems.<sup>9</sup> A price rise will inevitably affect other places, and complaining about it won't help. In some regions the "self-defence" method of raising prices has been used to restrict the outflow of goods. This is not good. The only way to stabilize prices is to allow the free flow of commodities. For a while financial work will continue to be done by the local authorities themselves, but we shall not be able to cope with the current situation if each region looks after only its own interests and there is no centralized control of resources. While it is impossible to concentrate all our reserves, we must see to it that the major part of them is used in a systematic, rational and unified way. It has been proposed that Guangdong, Guangxi and the southwestern provinces issue their own bank notes, supposedly for the benefit of the rear areas. But can the front areas withstand the consequences? If the rate of exchange between *renminbi* and these new currencies remains fixed, they will in fact be the same as RMB. If the rate is allowed to fluctuate, we shall have major problems in supplying the front. The crucial thing right now is for our troops to win battles. All our work must be oriented towards victory in the ongoing war. Current military operations involve very large formations, so we need to issue a great sum of

money. The situation is quite different from that during the War of Resistance Against Japan [1937-45], when we were operating on a small scale and could use different currencies for the convenience of both the rear areas and the front. We can no longer do that today.

Now let me discuss how we can overcome our financial and economic difficulties this autumn nationwide and how we can make the situation better next year.

To cover our expenses this autumn, we need to issue 163.3 billion yuan of *renminbi* every month from August through October. Taking the 280 billion yuan issued by the end of July as the base figure, this means an increase of 58 per cent per month. If the amount of money involved in commodity circulation remains unchanged, prices will increase by 58 per cent all the same. The additional bank notes issued will serve mainly to cover military expenditures and railway repairs. We still have to consider what to do about investment in industry and the purchase of farm produce. In November and December, besides military spending we shall have to buy cotton and export commodities. To cover these two items, each month we shall have to issue an additional 169.2 billion yuan's worth of bank notes. Can the price rise be lowered? Yes, because various new factors will come into play during the winter, including the further expansion of the liberated areas, the appearance of new farm produce on the market, the recovery of industrial production and the marketing of cotton yarn and cloth. Our conservative estimate is that prices will drop by about 20 per cent, which means a net rise of only about 40 per cent. Can we reduce our expenditures? No. First, because if we cut back on military spending, we would be unable to meet the needs of the army. Second, because if we cut back on the issue of bank notes for purchasing cotton and export goods, we would create difficulties in both agricultural and industrial production. Of course, we can reduce expenditures to some extent by economizing, but those savings won't amount to much.

What should we do in this situation? We have only two alternatives: to continue issuing bank notes, or to float government bonds. These two possibilities were raised while I was in Beiping [Beijing], and the Central Committee asked us to discuss them and come to some decisions. The authorities of central China have proposed that they issue government bonds in their own area—and in a very large amount, too.<sup>10</sup> Indeed, all the leading comrades from the various greater administrative regions have agreed that a certain number of government bonds should be issued.<sup>11</sup> I hope the comrades present here will give this matter further consideration. If we choose the former alternative of issuing more bank notes, thus causing monetary

inflation, everyone will suffer. As a matter of fact, rich people don't keep a lot of cash, so it is, first of all, the urban wage earners and, second, the army, Party and government personnel who will suffer most. If we want to issue fewer bank notes, we shall have to issue government bonds.

What amount of bonds should we issue? About 120 million silver dollars' worth, or ¥200 billion.<sup>12</sup> Some comrades favour a larger amount. I personally propose that we issue bonds in the amount of ¥240 billion (perhaps some of these will be purchased with gold or foreign currencies).<sup>13</sup> Bonds should be sold mainly in the cities, but some also in rural towns in the new liberated areas, so as to spread the use of RMB. With China's vast territory, 120 million silver dollars' worth of government bonds is not a large amount. For purposes of comparison, Chiang Kai-shek wants to issue 200 million silver dollars' worth of bonds just in the shrinking area still under his control. That's what he has always done when he was at the end of his rope. Northeast China, for all its 40 million people, has a much lower proportion of private enterprises than areas south of the Great Wall. Yet the authorities there have decided to issue, in two instalments, government bonds to a value of 12 million silver dollars, and the first instalment has already been sold on schedule.<sup>14</sup> So, in areas south of the Great Wall, where there is a much greater proportion of private enterprises, higher targets can be set for bond issue.

Of course, issuing government bonds is going to be a difficult task. Our industrial and commercial enterprises are still unable to operate normally, so they will complain when we assign subscription quotas to them. Will urban industry and commerce collapse if we issue government bonds? I don't think so, because the amount of bank notes issued every month will exceed the amount withdrawn through bond subscription. Our current note issue totals ¥163.3 billion a month, while the amount to be raised through the sale of bonds is only ¥60 to 70 billion. The currency thus withdrawn is limited, so we need not worry about a lack of working capital. We'll see how things stand at the time and cut back a little on bonds if money is too tight. We have drawn up a set of regulations for the issuing of government bonds, which I hope you will discuss.<sup>15</sup> There should be unity of action in this regard among the various localities; if the amount of bonds issued varies too much from one place to another, there may be loopholes for people to exploit. Bonds should be valued in parity units based on the wholesale prices of certain commodities.<sup>16</sup> Also, they should be redeemable. As for the term of the bonds, for the first instalment it should be short—three years, one-third of the bonds, chosen at random, being repaid with full interest each year starting with the first. Could we begin issuing bonds next year instead of this year? I don't think we can wait that long.<sup>17</sup> If we postpone issuing them until

next year, we won't be able to overcome our present difficulties. Government bonds can't solve all our problems, it's true. We must also work hard to improve tax collection, streamline the organizational structure, practise economy and adjust the distribution of material supplies.

With regard to budgetary revenues and expenditures for next year, we have the following tentative ideas, based on a possible increase of population in the liberated areas to 445 million.

On the revenue side, public grain will total 9.65 billion kg. (5.25 billion kg. of rice and 4.4 billion kg. of millet).<sup>18</sup> It will come from the following regions:

- East China: 3.25 billion kg. (2.25 billion of rice and 1 billion of millet);
- North China: 1.5 billion kg. of millet;
- Central China: 2.25 billion kg. (1.5 billion of rice and 750 million of millet);
- Guangdong and Guangxi provinces: 500 million kg. of rice;
- Southwest China: 1.5 billion kg. (1 billion of rice and 500 million of millet); and
- Northwest China: 650 million kg. of millet.

Calculated according to prices at the end of July this year, tax receipts will come to ¥1,750.2 billion. The breakdown by region will be as follows:

- East China: ¥710 billion (of which 350 billion from Shanghai, or five times the amount from Tianjin);
- North China: ¥180 billion;
- Central China: ¥220 billion;
- Southwest China: ¥180 billion;
- Northwest China: ¥48 billion; and
- Guangdong and Guangxi: ¥180 billion.

These calculations are based on the tax receipts of Tianjin and on the population of the various regions compared with that of Tianjin. Because a different currency in northeast China is being used, it is hard to make a uniform calculation for that region.<sup>19</sup> Next year we plan to bring to areas south of the Great Wall the following commodities from northeast China: 200,000 tons of rice, 100,000 tons of soy beans, 500,000 tons of coarse grain [corn, sorghum, millet etc.], 200,000 tons of steel, and 1.5 million cubic metres of timber for making railroad ties.

Turning now to expenditures, the cost of supporting 9 million personnel not engaged in production is calculated on the basis of an equivalent of 1,500 kg. of millet per person. One-third of this total expenditure will be supplied

in grain, which means a total of 4.5 billion kg.; two-thirds is to be paid in cash, which means a total of ¥2,316 billion (the price of rice being taken as ¥300 per kg, and that of millet as ¥120 per kg.). In addition, administrative expenditures will come to ¥746 billion.

It can be seen from the planned receipts and expenditures of public grain that there will be a surplus of 5.15 billion kg., or the equivalent of ¥1,023 billion. But expenditures in cash are expected to total ¥3,062 billion. So even using the tax receipts and surplus public grain to defray this expense, we will still have a deficit of ¥288.8 billion.

You may say that this budget presents some problems, because it leaves a deficit and fails to take account of available reserves. Yes, those are problems, but if we make an effort, they can be solved. Right now, the two most important things are to collect the public grain successfully and to improve tax collection. People in the old liberated areas hope that their public grain burden, which has been very heavy, will be lightened somewhat in the years to come. However, we can't yet impose the same public grain levy on the new liberated areas as on the old, because our work in the new areas is not yet firmly established. So we can't afford to reduce the burden on the old liberated areas this year. If we did, it would create problems, because the new liberated areas cannot yet contribute as much as they are supposed to.

It is possible to reach the target for tax receipts described above. What are the conditions that will enable us to do so? In the past, when most of the big cities were in enemy hands, three-fourths of our total revenue came from the agricultural tax. This situation has changed since we liberated the big cities. In northeast China tax receipts and receipts from publicly owned enterprises and foreign trade departments make up three-fourths of the total revenue, while public grain accounts for only one-fourth. In north China tax receipts now make up 38 per cent of the total revenue, and we should try to increase them to 50 per cent. This shows that taking the big cities has made a difference. We used to say that the enemy, who controlled the cities, was economically stronger than we, who could operate only in the countryside. That's because cities provide more financial revenue than rural areas. We should gradually increase the proportion of tax receipts in our total revenue. One way to eliminate the financial deficit is to augment tax receipts; the other is to issue more bank notes. The different methods would produce different results. Our principle should be to issue more bank notes if necessary—and to issue them in good time. Take northeast China, for example. With relatively stable prices, much commercial investment had been shifted to the area of production. At the same time, more bank notes

were being saved. All this meant that less money was in circulation, and the market was feeling the effects. Consequently, more bank notes had to be issued. This did not cause prices to rise. Before the outbreak of the War of Resistance, more than two billion silver dollars' worth of money (including local currencies) was in circulation throughout the country. Twelve years of war have adversely affected both production and money circulation, and so fewer bank notes should be issued now than before the war, say, no more than 500 million silver dollars' worth.<sup>20</sup> In other words, we should make two 50 per cent reductions in the prewar figure. We have, however, issued only 100 to 120 million silver dollars' worth of RMB, which is a very small amount. Our tax receipts are not very high either. No great problems will arise if we collect a little more taxes, especially at a time of economic expansion. When the financial deficit is not so great, we can try to increase tax receipts to attain a rough balance between revenue and expenditure, so that the economy can develop on a sound basis. Then, when currency is relatively stable, even if we issue more bank notes, commodity prices will remain stable too, and we can accomplish a great deal. An adequate supply of money will serve to expand production and thus increase tax revenue. As a result, we shall have more reserve funds and be able to invest in industry.

Lastly, a few words on suppressing bandits and mobilizing the peasants.

The suppression of bandits and the mobilization of the peasants can play a significant part in helping us to reach our financial and economic goals, and the Party, the government and the military organizations should make every effort to succeed in these two tasks. Of course, we should also keep trying to expand foreign trade and improve tax collection. As far as assigning cadres to rural areas is concerned, I am in favour of it. We should try to send goods there as well. Nowadays, in most of the countryside prices are calculated in terms of a specific quantity of millet, which is also used as a means of exchange. When we have wiped out the bandits and mobilized the peasants, we can expand our rural economy and RMB will take over the market. Politics and economics—these two should go hand in hand.

Next year the consolidated territory under our control will expand to embrace a total population of well over 400 million, which will be unprecedented since the birth of the Republic of China in 1912. We should be mentally prepared for rapid development of the military situation. Otherwise, all our work will lag behind the changing reality, and we shall be reduced to passivity.

## CURRENT FINANCIAL AND ECONOMIC PROBLEMS REQUIRING OUR ATTENTION

*August 15, 1949*

This has been a long conference—it has lasted twenty days. Now allow me to review the problems we have been discussing both during the conference and before it began, especially the ones demanding the attention of our comrades engaged in financial and economic work.

1. *Issuance of government bonds.* What should we do if issuing government bonds causes a strain on the money supply, adversely affecting the recovery and expansion of industry and commerce? The central authorities have considered this question repeatedly. I think we have the following three means at our disposal:

a) We can regulate the money supply. That is, we can put more bank notes into circulation when we issue government bonds and withdraw the money when circumstances demand. We should learn to make effective use of this means by studying the exact amount of bank notes that should be issued or withdrawn at any given time. We should also study the price parities between industrial and agricultural products and make them more rational. For instance, we can use more bank notes to purchase commodities on the market and, at the same time, readjust the price parities.

b) We can regulate the amount of government bonds issued. We should be flexible about this, determining the amount to be issued every month in the light of actual conditions. Both the term of the bonds and the exact amount issued may vary. For instance, now that the new grain crop is entering the market and more bank notes are being diverted to the countryside, money will be tight.<sup>21</sup> So we have to determine carefully the amount of government bonds to be issued in the cities and in the countryside.

c) We can regulate the amount of gold and U.S. dollars purchased by the state. The exact amount should be determined in the light of concrete conditions. This, too, is a means at our disposal. We can purchase more when

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Speech summing up a conference on financial and economic work held in Shanghai.

prices are stable and money is tight.

We should learn to use these three means skilfully, so as to create and maintain a favourable monetary and price situation and secure constant supplies of grain and other important commodities.

2. *Production of the cotton mills.* There is the question of whether the Shanghai cotton mills should be moved elsewhere. Wherever they are moved, there will have to be factory buildings, electric power and auxiliary industries. If we relocate the mills, the present workers will lose their jobs, and it will take at least six months for production to resume in the new place. We have therefore decided not to move the cotton mills. We should do all we can to maintain production. That will be difficult but not impossible. Here is what we can do: reduce the number of spindles first by 15 per cent (which is normal), and then by another 20 per cent, that is, have the mills operate five days and five nights a week. At this point, it's hard to tell how long we can carry on like that. The situation will become clear when the new cotton crop has been picked. What should we do if there is no market for the cotton yarn and cloth? Two things: first, we can sell them at a loss by exporting them in exchange for what we need; second, we can issue more bank notes and store the cotton yarn and cloth in case of a blockade by the U.S. imperialists. We should not consider stopping production unless neither of these measures is successful. Of course, we ought to seek other alternatives before opting for this last resort. For the present, however, let's concentrate on planning our work according to the principles I have outlined.

3. *Purchase of local specialties and use of funds.* First of all, we must ask comrades on the financial and economic commissions and in trading companies in the various localities not to be too rigid in their use of funds. They should make necessary purchases and sales without delay. As long as goods are on hand, they should be sold. In the past, most comrades have been reluctant to dispose of purchased commodities because of years of price instability. Now we should consider what and when to sell so as to achieve the best results. If a shortage of goods on the market causes a price increase and thus more bank notes have to be issued, this may be beneficial to local interests but harmful to the interests of the country as a whole. We should be prepared to sell goods to maintain price stability, which is a very important overall factor.

A company should be established under the direct leadership of the Central Financial and Economic Commission (CFEC)<sup>7</sup> to provide unified management of raw cotton and cotton yarn and cloth. It would be best if cotton mills in east China were to barter their yarn and cloth for cotton. Comrades from this region say that in the absence of central, unified

management they might not be able to obtain cotton with their yarn and cloth or even with bank notes, and that some mills might hoard their yarn and cloth instead of selling them. They are asking that the central authorities place all of the cotton yarn and cloth under unified management, and that they provide cotton to mills. This would require the establishment of a cotton and cotton yarn and cloth company directly under the CFEC. Such a company would also ensure the smooth withdrawal of bank notes from circulation.

The export of tung oil, silk, tea and other major local specialties should also be controlled by the CFEC. To ensure this centralized control, a local specialties company should be established. Without such a body, we would have to raise funds for two separate purposes—purchasing the products and organizing exports—which would tie up too much money. Also, unless we centralize the export of local specialties, it will be hard to centralize the use of foreign exchange for buying the foreign goods we need. All departments need foreign exchange, each having its own list of goods to be imported. If we establish a company for the export of local specialties, we shall be able to use our foreign exchange effectively in a centralized way, to the benefit of the country as a whole.

4. *Facilitating free flow of funds and establishing a central authority to issue currency.* Northwest China, while it is poor and thinly populated, nevertheless supports a large number of troops. It has therefore issued a great many bank notes. Without outside help, the region will be unable to shoulder the heavy financial and material burden, and the local people and army units stationed there will complain. Northwest China should be prepared to bear 90 per cent of the burden itself, but east, central and north China should lend a helping hand. Until we have nationwide monetary unification, this outside help can take the form of facilitating the transmittal of funds between regions and allowing merchants to transport commodities from other places to northwest China. Applying to the southern front as well as to northwest China, these are ways in which richer areas can aid poorer ones and the rear can assist the front.<sup>1</sup> When there is a free flow of funds, more currency will be issued, and we should set up a central department to deal with the problem. To encourage free flow, we must put an end to the 12-year-old practice of every area's issuing its own bank notes at will, and separate the work of the central currency department from that of the banks.<sup>22</sup> Considering the financial conditions in the new liberated areas, however, we can give them a degree of leeway in the matter of currency issuance, allowing them to act first and report afterwards.

5. *Unified management of taxable items, tax rates and the export of salt.*

The list of taxable items and the tax rates we have just drawn up may not be entirely rational, but they are better than nothing. We can try them out for a couple of months and then revise them in the light of experience. We should not abandon the attempt to unify taxes just because the present system is imperfect. We can begin to unify them and improve the system as we go along. Although exceptions may be allowed in certain localities, major taxes should be uniform everywhere.

As for the bulk export of salt, trade transactions involving 50,000 tons or more should be handled exclusively by the CFEC, because they have to do with foreign policy. Li Zhuchen has said that it would be to our advantage to export processed salt.<sup>23</sup> Of course that would be better, if processed salt is available. If not, we can export crude salt, so long as the price is fair. Prices for export salt should be standardized by the CFEC. The ports to be used, the kinds of salt to be exported, and the prices will be determined according to circumstances, because they will depend on the quality of the product and the distance the salt has to be transported. We must see to it that we leave no loopholes for merchants to exploit.

6. *Freedom of domestic trade.* I understand from comrades in east China that the authorities in Changzhou have forbidden local grain to be shipped to Shanghai and that the ones in northeastern Jiangxi Province have imposed a similar blockade on Hangzhou. Many of the people who support these restrictions are even Party members, who think they are acting “for the good of the country and the people”. They argue that if grain is shipped out, the local peasants will starve. But that argument doesn’t hold water. No peasant on earth would be so stupid as to sell all his grain and let himself starve to death. The peasant is no fool. He knows that bank notes may depreciate, so he won’t sell his grain unless he is in urgent need of money. These people also maintain that transporting local grain to other places will cause the local price to rise and jeopardize the national economy and the people’s wellbeing. In fact, in places where free trade in grain is banned, the peasants will be unable to sell their grain at a higher price. On the other hand, in the cities a higher grain price will mean higher costs of industrial production and, consequently, an increase in the price of industrial products. The net result will be a widening of the price gap between industrial and agricultural products. Would all this be beneficial or harmful to the peasants? Absolutely harmful. Would it be beneficial or harmful to the big cities? Harmful, of course, because the several million wage earners would no longer be assured of grain supplies. Clearly, blockades are harmful to the peasants, to the urban labourers, and to national economic development. They are beneficial only to residents of the small and medium-sized cities in the areas from which it

is forbidden to export grain—beneficial in the sense that the residents can buy cheaper grain. Compared to the peasant masses, urban workers and other employees, these people are obviously a minority. To whom should we give priority, the great majority of the people or a mere minority? To the majority, of course. As for the argument that prohibiting the export of grain outside the producing area would benefit the country as a whole, that is not true: it would cause the price of grain to rise sharply and make it impossible to sustain urban industrial production. The Party and government will issue directives to help solve this problem. Newspapers and periodicals, too, should carry articles explaining the situation.

7. *The question of retaining former Kuomintang personnel.* It is true that if we retain all the personnel of the former regime, they will be too heavy a financial burden. But we shall create even bigger problems if we dismiss them, leaving them unemployed with no means of support. Although feeding them may mean a financial loss for us, it will have a favourable political impact. When people in the areas awaiting liberation see that the former Kuomintang personnel are provided with a living, it will reduce their anxiety for themselves and they will offer us less resistance. As a result, the war will end much sooner, which will save tremendous human and financial resources, greatly diminishing our total expenditure. Even if we have to reduce the present personnel, we can't get rid of them all. Indeed, we have to retain most of them. When this question came up in east China, the authorities there had the ones who did have to be dismissed assembled for political education, explaining to them why they were being let go, telling them about our financial difficulties and asking them to talk the matter over among themselves. Of course, we cannot continue to employ notorious individuals who have earned the people's hatred. But there are only a handful of those. We should also fire the ones who have simply used pull to get their names onto the Kuomintang government payroll. But again, there are only a few of them. We should take into account the attitude of the majority of former Kuomintang personnel. Recognizing that state power has changed hands for good and that the people's government is here to stay, they are now willing to receive education and learn about the policies of the people's government so that they can eventually find a way to earn a living. The situation is different from what it was in northeast China not long ago. When Shenyang was liberated, some of the Kuomintang personnel wanted to leave.<sup>24</sup> Now things are different: The ones who have left are asking to come back. Even some big shots within the reactionary camp want to revolt and come over to our side. Now that the reins of government are in our hands, it is our responsibility to feed the population. We must be careful about this. We

should give political education to the former Kuomintang personnel, help them remould themselves and put them to use. We have to take up this burden and not just consider the matter from the financial point of view.

8. *Relations between the field armies and the regions where they were originally stationed.*<sup>25</sup> Each of our field armies wants to have a “home” of its own. This is because the new liberated areas, which are experiencing economic difficulties, cannot fully meet their demands for material supplies, so they have to rely on their “home” regions. For instance, the Fourth Field Army of the People’s Liberation Army used to obtain its supply of cotton-padded uniforms from northeast China. This practice inevitably caused some waste. So what is to be done? As a general rule, the supplies provided by the regions to the field armies should be under the unified control of the central authorities. If the new liberated areas are unable to do their part, the central authorities can make up the shortfall. If the field armies require small quantities of paper, telecommunications equipment and other such supplies from their “home” regions, those regions should do their best to help. But if very large quantities of materials are involved, the matter should be referred to the central authorities.

9. *Relations between the different regions.* In this connection, there are just three points I want to mention.

First, where necessary, each region may establish an office in the other friendly regions. When the personnel of one region needs to contact the personnel of another region, they should do so through their office there. They should follow the rules and regulations of that other region and not act arbitrarily. Should the Central Financial and Economic Commission set up offices of its own in the various regions? That’s something we have to consider carefully. If it establishes such offices, it may run into trouble, because the regional authorities will be tempted to refer to them matters that they could handle themselves. So I think we had better not do that. If we don’t, will our work be more difficult? Not necessarily, because the financial and economic commissions of the various greater administrative regions<sup>11</sup> are, in effect, local offices of the CFEC.

Second, the transfer of large quantities of materials from one region to another should be made with the approval of the Central Financial and Economic Commission. For instance, the 200,000 tons of rice that the authorities of northeast China shipped to Shanghai were transferred there through the Commission. Small quantities of materials, however, may be exchanged directly by agreement between the sides concerned.

Third, in principle, basic materials stored in Shanghai by factories in the different regions should be returned to them. Any disputes should be

arbitrated by the CFEC. When they come to east China to recover their materials, comrades from other regions should behave like gentlemen and not make petty demands.

10. *Ensuring supplies for Shanghai.* The authorities of Shanghai should concentrate on organizing transport, especially inland navigation. All the big ships of the China Merchants Steam Navigation Company should be commandeered for use in the liberation of Taiwan.<sup>26</sup> Civilian navigation facilities consist mainly of small steamboats and of junks like those plying the Suzhou Creek in Shanghai. Though they are low-powered and slow and are costly to operate, they are better than nothing and should therefore be fully utilized. Moreover, we should allocate funds for building boats of this sort, which will meet our present urgent needs and also be useful in the future. The problem now facing Shanghai is to obtain adequate supplies of rice and cotton, and the key factor is the availability of transport facilities to bring them in.

This autumn we plan to amass 200 to 400 million kg. of rice from the Nanjing-Hangzhou region to meet the needs of Shanghai. We should not be pessimistic about rice supplies. According to our statistics, at the end of 1948 Shanghai had a population of 5.05 million, and by the end of last May it had risen to 5.5 million. But both these figures included the population of the surrounding rural areas. The city proper had only 4.4 million people, and now that 400,000 of them have returned to their home villages after liberation, it has no more than 4 million. Taking 11 kg. of rice per month as the average consumption per capita, 1.5 million kg. per day will be enough for the whole city, and that amount is now on hand. Besides, we should remember that Shanghai residents have extensive emergency reserves of rice. Since we have ample grain, we can be confident of controlling the price on the Shanghai market. Before liberation there were two or three hundred thousand speculators in Shanghai who were adept at playing the market and shifting their losses onto other buyers. They worked hand in glove with the government, which was the source of corruption. Since we don't take bribes or act for personal gain, and since anyone caught doing so is severely punished, the speculators can no longer have their way. With grain at our disposal, we can certainly exercise effective control over the market.

The authorities of north, east and central China should all ensure the fulfilment of their plans to purchase cotton.

Transportation is an important pillar of the national economy. We should develop water transport and aid in the restoration and expansion of the railway system. Repairing the Tianjin-Pukou Railway will be mainly the responsibility of Shandong Province. Since it is also very important to restore traffic along the Beiping-Hankou Railway, it too must be repaired, regardless

of the human and financial costs.

11. *Making full use of the telecommunications services.* For security reasons, we now use chiefly our own radio stations rather than the telecommunications services that we have taken over from the Kuomintang regime. From now on, however, while confidential message should continue to be transmitted or received through our own radio stations, all ordinary messages can be entrusted to the telecommunications services.

12. *Convening special conferences.* We plan to convene a number of special conferences after this one. They will include a monetary conference to discuss questions of foreign exchange and government bonds, a trade conference to discuss the purchase of cotton and a price conference to discuss our price policy, especially the parities between industrial and agricultural products. These price parities mean, essentially, the relation between the people's state, which is led by the proletariat, and the peasantry. We have learned some lessons in this respect in the Northeast. For example, the year before last, when we set the exchange rate between grain and cotton at 12:1 (kg.), the peasants gave up planting cotton. But last year, when we raised the rate to 13:1 and stipulated that cotton growers would be exempted from the public grain levy,<sup>18</sup> the peasants responded by producing more cotton. This illustrates the great importance of our price policy and shows we must study it carefully and learn to apply it effectively.

We are also going to hold a conference to plan industrial production. In Shanghai there are many hardware factories that are similar to the repair shops of machinery plants. The recovery and development of these factories and of the industry as a whole are closely related. The factories, which have a highly skilled labour force, should diversify their products. The production of steel wire, for instance, has a promising future. They can also make spare parts and accessories for heavy machinery. To promote sales, both publicly and privately owned enterprises can hold sales exhibitions in other areas, or contact their counterparts elsewhere to organize mutual visits.

13. *Two requirements for the financial and economic commissions and related personnel.*

First, they should focus on economic development. They should try to cut back on expenditure and, especially, to increase revenue. It is important to economize, but it is even more important to tap new sources of revenue, and that means developing the economy.

Second, in each of the greater administrative regions, the financial and economic commission should become a sort of headquarters. At present, however, the commissions have only a small number of personnel, and that's not good. They should establish offices to handle special work such as

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banking, finance and trade. Some can even designate particular members to be in charge of certain affairs, for instance, a secretary for industry or a member for planning. These comrades should read the relevant documents and data and consider specific questions. In this kind of work we can't rely on comrades in the lower-level departments. This work has become very difficult and wide-ranging, and it will be hard for us to manage unless we set up some units to do research in special fields. But where can we recruit the necessary personnel? It would not be possible to have them transferred from higher organizations; they will have to come from the various professional departments themselves. And they should be first-rate people, nothing less. Our existing organizations are utterly incapable of meeting today's requirements, and it's impossible for us to cope with the present situation merely by drawing on past experience. Nowadays we have to handle not only domestic matters but also economic relations with foreign countries. This calls for unity between Party members and non-Party people, between people in the revolutionary base areas and those who have been working underground in enemy-occupied areas, between people of a given region and those coming from outside. We need the broadest possible co-operation. In short, since we have to administer the affairs of a large country with a population of several hundred million, we have to enlist the aid of people everywhere, both Party and non-Party, who possess the necessary skills.

## THE WORKING CLASS SHOULD RAISE ITS POLITICAL AWARENESS

*August 25, 1949*

Has the political status of the Shanghai workers undergone any change since liberation? Yes, it has, and the change is absolutely fundamental, because they are no longer members of an exploited class but members of a leading class. Anyone who does not understand this fact will make mistakes. Some people say, “But aren’t the workers still wage earners as before?” They should know that there is no exploitation in the state-owned enterprises, where the workers have become masters of their own destiny, and although workers in privately owned enterprises are still subject to capitalist exploitation, they are members of the leading class in New China. Times have changed, and so has the status of the working class. The aim of our struggle should therefore shift from the overthrow of imperialism, feudalism and bureaucrat-capitalism to the consolidation of our own state power, the expansion of production and support for the front. The vast majority of workers have come to recognize these changes, but there are still some who have not. That is why we should repeatedly make things clear to them.

We are going through a period of war and enemy blockade. Nationwide victory, however, is now a foregone conclusion—and it will not be long in coming. The blockade may create some difficulties for us, but it will impel us to become self-reliant sooner. Of course, while we should not lose sight of the future, we should not close our eyes to the present situation either. We still have to wipe out the remaining enemy forces. The blockade has created difficulties for us in the procurement of raw materials, in the marketing of our goods, and in transportation. As it is, most of our cotton comes from central and north China, our coal from north China and our grain from central and northeast China. Because of the shortage of railway

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Excerpt from a speech made at an enlarged meeting of the preparatory committee for the founding of the Shanghai Municipal Federation of Trade Unions. At the time, Comrade Chen Yun was Chairman of the All-China Federation of Trade Unions. The speech was first published in *People’s Daily* on August 30, 1949.

cars and big ships, the need to defend the carriers against air attacks and the impossibility of daytime transport, we are not receiving our supplies on time. This, together with a limited market, has caused many of our factories to operate below capacity, and some are even on the point of closing down.

Should we be discouraged by these difficulties? No. We should recognize that compared to the ones we've faced over the last two decades of struggle, they are nothing very serious. They can be overcome quickly if we face them squarely. The point is that we have to be mentally prepared to do so. As far as the workers are concerned, they should be prepared for the possibility of a wage cut. Generally speaking, wages in Shanghai have not been high. Shortly after the city was liberated, workers were earning an average of only 250 kg. of rice per month. Yet some of them were highly satisfied with that amount and said the revolution had succeeded. If that were so, the aim of our revolution would have been quite modest. The ultimate aim of our revolution is the realization of communism, under which the principle of "from each according to his ability, to each according to his needs" is applied. But comrades, when we are marching and come to a high mountain, don't we make a detour around it? We are now faced with a similar situation, and as an expediency, we have to go around the mountain before continuing our advance. For instance, it will be difficult to maintain production in those factories that contributed to the lopsided development of old Shanghai. The workers there may lose their jobs temporarily. As for the other factories, we should do our best to help them and not let them close down. Some people may say that since they will have to close down sooner or later, they might as well do so at once. But that is an irresponsible attitude. For the workers, employment, whatever the hardship involved, is always better than unemployment. In those factories that are certain to close, workers, trade unions and capitalists should consult together and find ways to help those who will lose their jobs to weather the hard times. Comrades in trade unions should be prepared for the coming difficulties and help the government surmount them. In Harbin during 1946, the first year after its liberation, the workers received an average monthly wage of less than 100 kg. of grain, consisting of one-third each of corn, millet and sorghum. They gritted their teeth and endured the hardship, and six months later, when they had defeated the enemy's attempts at disruption, their average monthly wage rose to 125 kg. When Shenyang was liberated last year,<sup>24</sup> the average monthly wage of workers in heavy industry there was as much as 150 *fen* (one *fen* being the equivalent of 1.25 kg. of grain), and accident insurance began to be introduced in workplaces.<sup>27</sup> This proves that once we have overcome the difficulties, the life of the workers will improve year by year.

How long will this hard period last? That will depend on three factors. First, the length of time it will take to liberate all of China. The sooner the War of Liberation ends, the sooner we shall be able to reduce our military spending and use the money saved for productive undertakings. At present, however, we have to allocate funds for the war, because nothing can be accomplished without complete military victory. Second, the quality of our government work. In the midst of tremendous hardships, we should endeavour to maintain production and minimize difficulties. Our People's Government will certainly do its utmost in this regard. Third, the political awareness of the working class. Will the masses of workers stand with us and think of ways to get through these hard times, or will they lose heart and complain? If it is the latter, our difficulties will multiply. Comrades in the Federation of Trade Unions should organize the workers to discuss how we can maintain and increase production notwithstanding the present circumstances. You should ask the workers to think about what the Kuomintang did for them during all the twenty-two years of its rule. Let them give us a few years and they will see who can make their lives better.

What should be our approach to the privately owned factories? Private capital being an indispensable component of China's new-democratic economy, workers in privately owned factories should try to raise productivity and increase production. Doesn't this mean helping the capitalists to make money? Yes, but considering the interests of the country as a whole, which is better—to produce more or produce less? To produce more, of course. The workers should be encouraged to judge things from the point of view of the overall interest, not just their own individual interest. Workers in a private factory are entitled to demand that both labour and capital benefit from its operation and that the capitalists respect the democratic rights of the workers and abide by the laws and decrees of the people's government. At the same time, the workers have the duty to fulfil production plans, comply with the contracts drawn up with the capitalists and observe government laws and decrees regarding the protection of private enterprises. We should not only make sure that the workers enjoy all their rights, but also urge them to fulfil their duties. Although urging them to fulfil their duties is harder, we must do it all the same.

The working class should raise its political awareness. The Shanghai workers have a revolutionary tradition, but hidden among them are a small number of enemy agents. For their own ulterior motives, these agents make excessive economic demands and emphasize limited and immediate goals, as if they were the most capable representatives of the workers' interests. We should expose their plots and tell all our fellow workers that any claim to

represent their interests has to be supported by facts, not just empty talk. No enemy agent can escape from our hands. It's not hard to arrest such people. But what's more important is to get the workers better organized and explain matters to those who, because they don't have much political awareness, unquestioningly believe the arguments of any Wang or Zhang who comes along. It is necessary to organize more study classes and lectures to help them clearly distinguish between friend and foe and between right and wrong.

To sum up, we should squarely face the current difficulties in production. There is no doubt that all these difficulties can be overcome, provided the working class and the government work together to find the right means.

## BUILDING A NEW PEOPLE'S CUSTOMS SYSTEM

*September 1949*

1. It is a major reform to transform a customs system that for a century has been under imperialist control into a system completely under our own control, one appropriate to New Democracy—that is, one that serves the people, increases their wellbeing and benefits the national economy. We should go about this transformation carefully, carrying over from the old customs system whatever is useful to New Democracy. For example, we should retain the old methods of inspection and ways of combatting smuggling and draw on the administrative experience of the old customs officers.

2. The customs service is closely related to foreign trade. The People's Government is ready to restore and develop trade relations with the governments and peoples of other countries according to the principles of equality and mutual benefit.

3. The present lack of uniform administration of customs in the country is only temporary. This situation will change gradually.

4. Cadres, both old and new, who are working in the customs service must unite in a concerted effort to build a new system that truly belongs to the people.

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Summary of a speech made at a national forum of representatives of customs personnel. It first appeared in *People's Daily* on October 26, 1949.

## VETERAN AND NEW CADRES SHOULD UNITE

*November 8, 1949*

We should make an overall adjustment in the allocation of our human and material resources. It's not right for the authorities of every greater administrative region<sup>11</sup> to launch large-scale projects on their own, as they are planning to do. We have to be realistic: with a limited amount of money and machinery, we must begin our undertakings where conditions are favourable, where we have a good foundation to build on. It is very important for us to launch projects in the order of their importance and urgency; otherwise we shall lose sight of the overall situation. You comrades must have learned that from your study tour. On the other hand, it would be wrong for us to consider only the most important and urgent projects to the neglect of others. As for the allocation of machines, before distributing them the Central Financial and Economic Commission<sup>7</sup> and the Ministry of Heavy Industry should send people to investigate the situation in the various localities.<sup>28</sup> There has to be a large-scale adjustment in the allocation of personnel too. Technical cadres in the south should be transferred to the north, because northeast China is suffering from a serious shortage of such people.

Comrades who have been transferred from east China to northeast China feel that there are problems in the way cadres are used there. And comrades who have been transferred in the other direction make the same complaint about their new region. The crux of the matter is the relations between veteran and new cadres. The "new" cadres are afraid the "old" cadres don't trust them, and the "old" cadres, for their part, are afraid the newcomers may not be very reliable.

According to materialist dialectics, nothing exists without a cause. It might be a good idea for us to review the history of our relations with people

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Part of a speech made in Beijing at a meeting to welcome returning members of a study group that had been sent to northeast China. At the time, Comrade Chen Yun was Vice-Premier of the Government Administration Council of the Central People's Government and concurrently Chairman of the Central Financial and Economic Commission.

who have technical skills. The years immediately following the liberation of Harbin constituted the first stage of those relations.<sup>29</sup> At that time many of the technical personnel, under the influence of orthodox ideas, still harboured illusions about the Kuomintang and were full of anxiety. We had constant problems then with railways and coal mines, but we could rely only on the help of workers. The second stage began when Siping was liberated and our military position in the Northeast was consolidated.<sup>30</sup> This, coupled with our correct policy towards them, made the technical personnel abandon their wait-and-see attitude and become willing to work with us. In the third stage the liberation of Shenyang put the minds of the people in northeast China at ease.<sup>24</sup> We regarded the technical personnel who came with us from northern Manchuria to take over Shenyang as veteran cadres.<sup>31</sup> That is how our relations with them developed in the Northeast.

After our capture of Tianjin and the peaceful liberation of Beiping [Beijing], there was no doubt that we would seize political power throughout the country.<sup>32</sup> In the factories, except for a small number of people from the revolutionary base areas who were brought in to assume leading positions, there was no change in the composition of the technical staff. This was in keeping with the rapid expansion of the liberated areas. During this period many of the technical people in the south came north for discussions with us, so after the PLA crossed the Yangtze, it was those people who were entrusted with much of the take-over work in the south. In production units, not only were technical personnel at the lower levels left in place, but some of them were recruited to fill the higher positions. All this shows that people's political awareness was related to the progress of the struggle for liberation.

So it is clear that in recent years the technical personnel have been drawing ever closer to us as the cause of liberation has advanced. This is how history has been developing, and we should not consider a question apart from its historical context. Veteran comrades should not judge east China by the standards of northeast China of a few years back, and comrades from east China should not cling to old attitudes about the Northeast.

Veteran comrades should trust the technical personnel who used to work in the Kuomintang-controlled areas, and they should change their attitude if they haven't already done so. Now that circumstances have changed, we should change our approach. We should recognize that the overwhelming majority of the technical personnel are ready to serve the people and remould their ideology, and that many of them may become Communists. We should utilize their abilities instead of closing the door on them. Of course, there are diehards among them, but these are only a handful.

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Technical personnel who worked under the Kuomintang regime have their weaknesses. We can advance their ideological remoulding if we help them recognize those weaknesses.

First, the great majority of the technical personnel received a British or American bourgeois education and had no contact with the Communist Party. Some of them blindly worship the capitalist countries and entertain illusions about them. We should make it clear to them that although British and American technology is advanced, it is controlled by a minority who are hostile to us and will never help us. Now we have only the Soviet Union to turn to for help.

Second, many technical personnel profess to be aloof from politics: they think that politics is just empty talk and that only technology can serve society. We should help them realize that serving society is not an abstract question. In old China under Kuomintang rule, technology served the capitalists in their quest for profits, as it does in capitalist countries today. Only in countries like our People's Republic can technology serve the overwhelming majority of people. Naturally, if they are truly to serve the people, technical personnel must undergo a process of ideological remoulding. Under capitalism, in order to earn a living, most of them have to sell their labour power to the capitalists and subject themselves to capitalist control and exploitation; thus, their intellectual development is seriously hampered. As I see it, the greatest happiness one can have is to join the revolution and work for the people. Only when the revolutionary cause is assured of a promising future can a person make full use of his abilities.

Third, many technical personnel tend to look down on workers. That's not good. The founding of New China has wrought a change in the relations between people. In the old society the capitalists exploited and oppressed the workers and played the technicians against the workers, even though the technicians were exploited too. Things are different now; relations between the workers and technicians are no longer antagonistic but harmonious. The two should unite to promote production. Production cannot proceed without workers, and it requires technicians as well.

We should be failing in our duty to our comrades doing technical work if we didn't point out to them the three weaknesses that I have described. There's nothing unusual about having a touch of individualism. Quite a few Party members do too. The point is that even though it is a painful process, in the long revolutionary struggle our comrades must and can overcome individualism.

In short, the distinction between veteran and new cadres is only relative. A cadre may be new today, but he will be a veteran tomorrow. We hope that

cadres will clear up any misunderstandings with each other, learn more about one another and co-operate closely so as to make greater contributions to economic development in New China. Veteran comrades should trust the new ones and allow them a free hand in their work, while helping them to overcome their weaknesses. For their part, new comrades should respect the veterans and help them to acquire both general knowledge and technical skills. Only when both sides have come to understand this will they gradually achieve unity in their thinking and be able to work together more successfully.

## MEASURES TO CHECK THE SHARP RISE IN PRICES

*November 13, 1949*

1. Since October 15 of this year a substantial depreciation of currency and a sharp rise in prices have been reported from all over the country, first from Shanghai and Tianjin, then from central and northwest China. Taking as a base the figures for the end of July, as of now the average price index in the various regions has risen as follows: in Beijing and Tianjin by 180 per cent; in Shanghai by 150 per cent and in central and northwest China by almost the same amount. Setting aside some special factors in certain areas (such as the high price of cotton and the rapid sale of cotton yarn in Shanghai and the high price of grain in the disaster-stricken areas of north China and in the cotton-producing areas), the basic cause of the current price rises is the enormous increase in the amount of bank notes that have been issued. By the end of July they had reached 280 billion yuan,<sup>2</sup> by the end of September ¥810 billion, by the end of October ¥1,100 billion, and now the figure is ¥1,600 billion. This almost six-fold increase has caused the currency value to drop substantially and commodity prices to rise sharply.

2. Since the end of July the amount of money in circulation has increased, owing to such factors as the expansion of the territory under our control, the diversion of more bank notes to the countryside,<sup>21</sup> an increase in farm production and the recovery of industry and commerce. As stated above, by the end of July the amount of money issued had reached ¥280 billion, the equivalent of 10 million bolts of cotton cloth, or 1 billion kg. of grain (average figure for rice and millet taken together), calculated in terms of the prices at the time. By now it totals ¥1,600 billion, the equivalent of 20 million bolts of cotton cloth, or 2 billion kg. of grain, according to current prices. Since the end of July, the

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Telegram addressed to the greater administrative regions,<sup>11</sup> and to other units under the Central Financial and Economic Commission of the Government Administration Council.<sup>7</sup>

velocity of currency circulation has remained roughly the same, which means that it has been very high. We estimate that the territory within which our currency circulates has doubled in area. Accordingly, the average prices nationwide are nearly 200 per cent higher than they were at the end of July. On the basis of these prices, the total amount of money needed in areas south of the Great Wall is ¥1,600 billion. So it is now possible to stabilize prices, even though it was impossible two weeks ago, when we hoped to keep them at the level of the end of September. That's because between early October and now, we issued nearly ¥800 billion in bank notes without having enough commodities to absorb such an enormous amount of money. If we had nevertheless tried to stabilize prices with only the small amount of goods available, we would have depleted our resources without achieving our purpose. There has been a three-fold increase in prices, but it has become possible to stabilize them, and all local authorities should make every effort to do so. To this end, the following directives are issued:

1) An attempt should be made to limit the price increase to 300 to 320 per cent of the average price index for Shanghai and Tianjin at the end of July.

2) Every day from November 15 to 30 northeast China will transport 5 to 6 million kg. of grain south of the Great Wall to meet the needs of Beijing and Tianjin. Trading companies in northeast China, Beijing and Tianjin will do all they can to ensure the loading and unloading of freight cars, and the Ministry of Railways will see to it that the empty cars are sent back to the Northeast.

3) To make sure that the city of Hankou and Hunan and Guangdong provinces have adequate supplies of cotton yarn and cloth, Qian Zhiguang will be sent first to Shanghai and then to Hankou to find out what amounts of those products are available there; then we can take appropriate action.<sup>33</sup> At the same time, central China is urged to transport its raw cotton to the east.

4) The Northeast Financial and Economic Commission will send personnel to arrange for the quickest possible transport to Xi'an of the cotton yarn and cloth stored in cities situated along the Longhai Railway.

5) To meet the demand for grain in the cotton-producing areas, from November 16 to 30 the Ministry of Finance will transfer to the Ministry of Trade<sup>34</sup> 105 million kg. of public grain,<sup>18</sup> to be delivered in areas north of the Dezhou-Shijiazhuang Railway and in Pingyuan Province.<sup>35</sup>

6) Beginning from the date of receipt of this telegram, the People's Bank of China and its major branches will cease granting loans, with the exception

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of special cases approved by the Central Financial and Economic Commission or by the financial and economic commissions of the greater administrative regions. In the meantime, loan payments should be collected according to the original agreements. A directive will be issued later regarding the resumption of loan service.

7) Beginning on or about November 25, the authorities of major cities will introduce taxes that will help withdraw money from circulation.

8) Beginning from the date of receipt of this telegram, the financial and economic commissions of the greater administrative regions will temporarily stop disbursing funds to be invested in industrial and mining enterprises or to be used for purchasing agricultural and industrial products. Funds for such purposes that have already been approved by the CFEC are excepted.

9) The CFEC and the financial and economic commissions of the greater administrative regions will defray all local military expenses (except the cost of building warehouses). On no account are funds for this purpose to be withheld. The local Party, government and military authorities, however, are asked to instruct the comrades in charge of army logistics that none of these funds may be used for commercial activities.

10) Where possible, payment of any local administrative expenses should be delayed for fifteen to twenty days.

11) Except for goods that must be supplied for the retail market, local trading companies should not sell any large quantities of essential commodities for the time being. Instead, they should transfer such commodities to the major centres, trying to complete this process by November 25 (or November 30 at the latest). We plan to sell these goods simultaneously in the major cities starting some time between late November and early December. To keep the Central Financial and Economic Commission informed and to ensure co-ordination, local authorities should report to the Commission on the preparations they are making. A date will then be set to take simultaneous action.

12) To teach the speculators a lesson along the way, the following has been decided:

(A) We should take advantage of the current widespread panic buying to sell to the speculators goods for which there is only a sluggish market or no market at all. However, we should not sell them any essential commodities.

(B) When, with less money in circulation and stable prices, merchants want to dispose of their essential commodities, we should lose no time in purchasing them.

Please discuss the above measures, make the necessary preparations for their implementation and send us, by telegram, any comments you may wish to make. You should see to it that no preparatory arrangements are revealed to the public through the press or other channels.

## SOME IDEAS ON PRICE CONTROL

*November 16, 1949*

1. At the end of July Dragon Head cotton cloth was selling in Shanghai at 27,000 yuan<sup>2</sup> per bolt and Gold City<sup>36</sup> 20-count cotton yarn at ¥600,000 per bale. These prices, considered abnormally low in terms of national price levels at the time, were due to a tight money supply, an overstock of the goods in question and a limited market. In estimating the present nationwide price index, we should take as a base instead ¥30,000 for a bolt of Shanghai cotton cloth and ¥700,000 for a bale of Shanghai cotton yarn. Calculated in this way, the price of ¥77,000 for cloth and of ¥1.85 million for yarn, quoted on November 12, meant an increase of less than 200 per cent. The Central Financial and Economic Commission<sup>7</sup> explained this in its telegram of November 13<sup>37</sup> to the financial and economic commissions of the greater administrative regions.<sup>11</sup>

2. The markets in Beijing and Tianjin were in chaos on November 12 and 13 respectively, when a few grain merchants demanded prices 400 to 500 per cent higher than the price of the end of July. However, the market began to return to normal yesterday in Beijing and today in Tianjin: the prices of both grain and cloth are falling to a point that represents only the expected increase of 200 to 300 per cent. We foresee that in the last couple of days towards the end of the current round of price increases, prices may rise abnormally in other places—by well over 200 per cent. But this will be a temporary phenomenon, and in general, prices will gradually fall. Nevertheless, because of special factors such as an imbalance in the money supply and problems of supply and demand, the prices of certain commodities may not come down.

3. From now on, and especially in times of sharp price rises, when local authorities prepare reports on commodity prices they should indicate for each

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Telegram to Comrade Deng Zihui, Chairman of the Financial and Economic Commission of East China and to his counterparts in northwest, south China and other greater administrative regions. It was drafted by Comrade Chen Yun on behalf of himself and Comrade Bo Yibo.<sup>38</sup>

item both the official price and the black market price and estimate the proportion of each in the total volume of sales. It is particularly important for the authorities of Shanghai and Tianjin to do this, so that our cadres in north, central and south China—and, in future, southwest China—will be able to control prices in their regions.

4. In calculating the future average price index, the authorities of the various localities should estimate whether they are going to have a surplus or shortage of particular commodities. They should also anticipate whether local prices of certain goods will be influenced (and, if so, to what extent) by the fluctuating prices of the same goods in Shanghai and Tianjin. (For instance, the prices of cotton yarn and cloth in Shanghai have a big influence on the prices of those goods in Hankou, while in the case of rice the influence is insignificant.) This will help local authorities set prices that are appropriate not only for their own localities but also in relation to prices throughout the country.

5. It is possible that the markets in Shanghai and Hankou may go through a period of chaos just as they did in Beijing and Tianjin on the 12th and 13th, but probably to a lesser extent. If that does happen, even if prices go up by 200 per cent, there is no cause for alarm, provided we have cut back on the amount of currency issued. In that case, we shall have to sell the normal amount of grain, edible oils and salt, but no more.

6. For the last couple of days our trading companies in Beijing and Tianjin have been unable to sell grain, so the price has been falling. If the same thing happens in Shanghai and Hankou, it will mark the end of the current price rise. We think that when the money supply in the localities has been reduced and the prices of cotton yarn and cloth in Shanghai and Hankou have risen to the anticipated limit, prices throughout the country may become stabilized by November 25. That's a possibility. To be on the safe side, however, the authorities of the various localities, in accordance with the telegram of November 13, should continue to do their utmost to prepare the necessary supplies.

7. The Hankou authorities should make daily reports on the local price situation to the Central Financial and Economic Commission and the Ministry of Trade.<sup>34</sup>

8. In east China, the prices of the four essential commodities—rice, cloth, cooking oil and coal—may rise by 250 to 300 per cent compared with those of the end of July. While local authorities should be prepared for this possibility, they should make their decisions on the basis of the Shanghai prices of about November 21.

## ISSUING GOVERNMENT BONDS TO REDUCE THE FINANCIAL DEFICIT

*December 2, 1949*

The depreciation of currency and the rise of prices that began in mid-October of this year have caused considerable losses to the people throughout the country, particularly the several million soldiers and wage earners.

The chief causes for the currency depreciation and the price rise are a huge deficit in the government budget and the overissuance of bank notes.

On the mainland the People's Liberation Army has routed the remaining Kuomintang troops and liberated vast areas. This victory is very encouraging, but it has meant a considerable increase in government expenditure. The number of our military, government and educational personnel now exceeds seven million, and it will increase again next year. Our financial revenue this year has fallen far short of expenditure. Even now, the old liberated areas, which have gone through long years of war, still have to support the front and the newly liberated cities with enormous quantities of grain and other supplies. We have begun to levy public grain only in part of the new liberated areas. Little tax has been collected from them, because the war has only recently ended there, local bandits have not yet been eliminated, it is difficult to restore local railway traffic and normal commodity exchange between town and country has not yet resumed. All this explains the large discrepancy between government revenue and expenditure. To make up the deficit, we have to issue more bank notes as a temporary expedient, which in turn has caused the currency to depreciate and prices to rise steeply.

It should be pointed out that lack of experience on the part of the comrades in charge of financial and economic matters has led to some shortcomings in their work. For instance, although it is scarcely possible to prevent prices from going up, they should have done their best to keep them

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Report delivered at the Fourth Meeting of the Central People's Government Council. It was first published in *People's Daily* on December 4, 1949.

from skyrocketing within a few days. Another thing, if there had been a little more grain in stock for distribution in the Beijing-Tianjin region, the unscrupulous speculators and profiteers would have been unable to cause trouble, and the local citizens, who during those days were worried about a possible grain shortage, would have been freed from anxiety.

The year 1950 is only a month away. How will the government fare in terms of revenue and expenditure next year? Will the situation be better than it has been this year? These are questions that concern us all. The Central Financial and Economic Commission<sup>7</sup> has put forward Draft Budget Estimates for 1950, and Comrade Bo Yibo<sup>38</sup> is going to explain some aspects of it. Because many areas were liberated only a short time ago, because many others still remain to be liberated and because we are still in the midst of war, there are bound to be some changes in the figures for revenue and expenditure given in the Budget Estimates. But roughly speaking, despite another enormous deficit, the government will be in much better financial shape next year than this. The question before us is: Are we to make up the deficit exclusively by issuing more bank notes, as in the past, or should we seek a better solution?

While the people throughout the country are jubilant over the PLA's victories, they can understand their government's financial difficulties in wartime. Nevertheless, they hope that despite those difficulties, the government will try to achieve relative monetary and price stability. This is very understandable, since our people have suffered more than a decade of staggering inflation under the rule of Japanese aggressors, Chinese collaborators and Kuomintang reactionaries.<sup>39</sup> Considering this wish of the people, we should find another financial solution instead of relying solely on the issuance of more bank notes. The government is working hard to improve tax collection so as to increase revenue, and it has decided to ask government departments and army units to practise strict economy and increase production. But even if we do that, we still won't be able to raise the salaries of military, government and educational personnel, who have been having a hard time. Insofar as possible, personnel in army units, government offices and schools in the rear areas should engage in production, in order to become partly self-sufficient in grain and vegetables. When conditions permit, troops who have no direct combat duties should also apply themselves to farming and industrial production. Every yuan should be saved wherever possible.

Not all these measures together, however, can substantially reduce the government's financial burden, and self-sufficiency through production cannot be achieved immediately. Consequently, the Government Administration Council<sup>40</sup> has submitted to the Central People's Government Council a

proposal that the government issue a specific amount of bonds. According to this proposal, for both purchase and redemption, the value of these bonds will be calculated in terms of parity units,<sup>16</sup> and the purchasers will be assured that at some point during the five-year term of the bonds they will be repaid with interest. In view of the present economic situation and the people's difficulties, only 200 million *fen's* worth of government bonds will be issued.<sup>41</sup> They are intended to reduce our financial deficit. Although it will be something of a burden for people to buy them in this time of nationwide economic difficulties, the burden will be lighter than the loss they would suffer from currency depreciation if we issued more bank notes. That's because if the value of the currency falls, the people will have to bear the entire loss represented by the percentage of depreciation. On the other hand, if they buy government bonds, although it may be a temporary burden, they will sustain no loss at all, since the bonds will eventually be redeemed with interest. If, by issuing bonds and reducing the deficit, we can bring about some improvement next year in the price situation and the value of money, that will be a boon not only to all the wage earners, military personnel, government employees and teachers, but also to the industrial and commercial enterprises, which will then be able to operate more normally. So, considering the interests of the people as a whole, it will be better to issue government bonds than to issue more bank notes.

Here, I should also like to inform the Government Council that, while issuing bonds will reduce the deficit next year, we shall continue to have financial difficulties. The bonds cannot eliminate the deficit entirely; our budget will still be deeply in the red. In particular, because of the swift progress of the War of Liberation and the increase in military and government personnel in the new liberated areas, government expenditure will rise rapidly and by a substantial amount. Government revenue, on the other hand, will rise slowly and to no significant degree. In general, it will be quite some time before our work in the new liberated areas can proceed normally. This includes the financial work. Because many of the comrades in charge of financial and economic affairs are still inexperienced, a great many difficulties will have to be overcome before we can achieve our goal for revenue.

All the government's financial difficulties, whether this year or next, will necessarily translate into difficulties and burdens for the people. But the difficulties are ones encountered during a triumphant advance, and the people will be compensated for the burdens they have to bear. Only after the whole country has been liberated, all the reactionary Kuomintang troops have been put out of action and the war has ended can the people's burdens be

eased and can they begin to enjoy an ever-improving life. The liberation of the whole country is drawing near. Although there will still be many difficulties after liberation, and an arduous process of economic recovery and growth, those difficulties will be of a different nature. Then, the economic and financial situation of our nation will without question improve with each passing year.

## PLANS FOR THE ISSUANCE OF GOVERNMENT BONDS AND BANK NOTES

*December 16, 1949*

### I. PLAN FOR THE ISSUANCE OF GOVERNMENT BONDS

A. According to reports from Shanghai, Hankou, Tianjin, Beijing and Taiyuan, the proposed issuance of government bonds has evoked a largely favourable response from the workers, peasants and other working people, as well as from government functionaries. The workers are getting ready to buy them. Generally speaking, the industrialists and businessmen have shown no opposition to the issuance of bonds or reluctance to buy them. The honourable ones feel that the bond issue will help stabilize currency value and commodity prices to some extent, thus facilitating normal business. Most of the industrialists and businessmen, however, have misgivings on two accounts. They are afraid, first, that part of their funds will be tied up in the form of bonds; second, that money will become tight, causing a sharp drop in prices. In addition, a few of them fear that the bonds will never be redeemed, like the ones issued by the Kuomintang government.

B. On December 16 the Government Administration Council<sup>40</sup> adopted regulations for the issuance of the first instalment of bonds, amounting to 100 million *fen*.<sup>41</sup> The bond certificates are now being printed, and they will be issued on January 5. It is most likely that receipts from sales of bonds will have reached a high figure by next March. Calculated on the basis of current prices, the value of each *fen* will be roughly 12,000 yuan.<sup>2</sup> In view of the misgivings on the part of the industrialists and businessmen, we have decided to issue an appropriate amount of additional bank notes along with the bonds, in order to relieve the strain on the money supply. Our general aim is to sell government bonds and withdraw

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Report to the Central Committee of the Chinese Communist Party, drafted by Comrade Chen Yun on behalf of himself and Comrade Bo Yibo.<sup>38</sup>

money from circulation, but at the same time to avoid a fall in prices and the ensuing difficulties for industrialists and businessmen. On condition that no bond certificates shall be used as a substitute for money on the market, as security for loans from state banks or as speculative capital, we shall not forbid—and it would be impossible to forbid—their legitimate transfer among individual holders or their use as security for loans from private banks. The government bonds will be distributed in the various greater administrative regions<sup>11</sup> according to the following percentages: east China, 45 per cent; Central-south China, 30 per cent; north China, 15 per cent; southwest China, 7 per cent; and northwest China, 3 per cent. In the old liberated areas the bonds will be sold only in cities; in the new liberated areas, they will be sold in cities too for the most part, but the landlords and rich peasants in the countryside will also be urged to buy a small number. As far as the method of subscription is concerned, in each city, through the Conference of People's Representatives, appropriate percentages will be assigned to the various trades. Then, in each trade, the specific number of bonds to be purchased by each individual will be determined by democratic assessment. Persuasion should be used rather than compulsion. Special methods are being worked out for the workers and government employees. It would be best if they could pay in full for all the bonds at the time of purchase; however, if that is impossible, they should be allowed to subscribe to the bonds and begin to pay for them later in monthly instalments to be deducted from their wages.

C. We should monitor the changes in the money supply and make use of the following three means of monetary control. First, the amount of gold and U.S. dollars to be bought by the banks should be determined in light of the money supply. To pay for the bonds they undertake to buy, certain subscribers must exchange for RMB, at state banks, a sum of gold and U.S. dollars amounting to 30 per cent of the value of the bonds to be purchased. Second, greater effort should be made to collect bond payments at times when there is a relaxation in the money supply, and we can ease up a little in collecting them in times of monetary strain. Third, when money is tight, the Ministry of Trade<sup>34</sup> can purchase more of the essential commodities (cotton, cotton yarn, cotton cloth and grain), and less when money is easy. These purchases, however, should mainly take the form of spot transactions or purchase orders. In addition, in certain cases, fixed-term parity loans<sup>16</sup> may be used.

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## II. PLAN FOR THE ISSUANCE OF BANK NOTES

By the end of November, bank notes totalling ¥1,890 billion had been issued (the figure will reach ¥2,670 billion by the end of December). Projected expenditure for this month and for the first two months of next year amounts to more than ¥3,140 billion, as against a projected revenue of a little more than ¥640 billion. This means a deficit of ¥2,500 billion, all of which must and can be made up by issuing bank notes. The reasons are as follows.

A. In the next three months three factors will combine to produce an enormous deficit. First, to make sure that public grain<sup>18</sup> and taxes collected by the lower-level units are delivered to the greater administrative regions, it is necessary to make sure that those units have enough supplies to meet their own needs. Only then can we give them strict orders to make the deliveries, and only then can we prevent the public grain and taxes from being used by governments at and below the provincial level. That is one reason why expenditure will exceed revenue in the next two months. In the revolutionary base areas financial work has been centralized in this way for the last decade. Second, most of the funds needed to make summer uniforms for the military and government personnel and to invest in agriculture, forestry, water conservation and transport will have to be allocated in advance during these three months. Third, it would not be appropriate to sell the public grain now, for this is the season when most peasants sell their own grain. If the government competes with them, the peasants will suffer because of the lowered price, and the public grain will also have to be sold cheap—a loss to both sides. But without sales of public grain, there will be reduced government revenue and hence a larger deficit.

B. By the end of next February we shall have issued bank notes totalling ¥4,400 billion. In March receipts from the sale of bonds will reach ¥1,200 billion. If we deduct the 30 per cent to be paid in gold and U.S. dollars by the subscribers, actual receipts in RMB will be ¥840 billion, or 19 per cent of the total note issue of ¥4,400 billion. This is a significant percentage of currency to be withdrawn and may possibly lead to a tight money supply. (Only 12 per cent of the currency was withdrawn from circulation in northeast China in May and June this year when bond payments were collected.) If we reduce the amount of bank notes issued, however, it will be difficult to sell the government bonds, so we have to proceed according to the plan just described.

C. The deficit for next year, which will be the equivalent of nearly 3.5 billion kg. of millet, as listed in the Budget Estimates,<sup>42</sup> has to be made up

by the issuance of new bank notes every month.<sup>43</sup> Suppose the deficit for the first half of next year is 1.75 billion kg. of millet. Assuming the price of millet remains at its present level of ¥1,400 per kg., we would have to issue bank notes to the amount of ¥2,450 billion. When that is added to the ¥2,670 billion which will have been reached by the end of this month, total currency issue will exceed ¥5,100 billion, and taking ¥2,670 billion as the base figure, that represents an increase of nearly 100 per cent. This means that commodity prices may rise by the same percentage, so that millet will be selling at ¥2,800 per kg. Now suppose the deficit for the second half of next year is also 1.75 billion kg. of millet. Assuming a new price of ¥2,800 per kg., we shall have to issue bank notes to the amount of ¥4,900 billion. By the end of December 1950 the aggregate figure will have reached ¥10,000 billion. Again taking ¥2,670 billion as the base, that will mean a 300 per cent increase next year and, consequently, a rise of the same magnitude in commodity prices. The extent of the price rise may be reduced owing to such factors as the expansion of our territory and the slowing down of currency circulation. But even so, it will be hard to prevent expenditure from exceeding revenue and revenue from falling. And other factors, such as a grain shortage, may also drive prices up. Therefore, we anticipate that the price increase next year may be as much as 300 per cent, and everything possible must be done to minimize it.

In view of this expected increase, we should bend our efforts towards making it gradual and avoiding any sudden jump in prices. We can anticipate three critical moments when money will be tight: the New Year's holiday, Spring Festival [Lunar New Year, falling that year on February 17] and the time when currency is withdrawn owing to the sale of government bonds. Unless we take appropriate preventive measures, we may find that prices rise only slightly, or not at all, during the first half of next year and then shoot up by 200 to 300 per cent during the second half. We should therefore take measures to ensure that prices rise by a certain percentage during the first half of the year so as to avoid a steep rise during the second half. We should try to bring about a price increase of about 10 per cent a month, beginning next January, so that by the end of the year the total increase will be about 210 per cent. To this end, in addition to bank notes issued according to the financial plan, we shall set aside ¥500 billion as a reserve fund to be used to purchase cotton, cotton yarn, cotton cloth and grain in times when money is tight and prices are levelling off. The Central Financial and Economic Commission<sup>7</sup> has already extended a loan of ¥50 billion to the authorities of east China to enable them to place orders with the capitalists.

To sum up, there are three advantages to issuing more bank notes in the

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first half of next year: first, it will ease the money situation, thereby facilitating the sale of government bonds; second, it will induce a gradual, month-by-month increase in commodity prices, thus avoiding a sharp increase in the second half of the year; and third, it will make it possible for us to purchase major commodities in times when prices are levelling off, thus enabling us not only to buy cheap and sell dear, but also to aid the industrial and commercial enterprises.

## TELEGRAM TO COMRADE MA YINCHU<sup>44</sup>

*December 17, 1949*

A. Regarding the planned establishment of the Dahua Civil Aviation Company, we have again consulted Premier Zhou Enlai and are of the opinion that the principle of state ownership of the aviation industry should be upheld.<sup>45</sup> There are, however, some individuals at home and some overseas Chinese, who wish to invest in the industry, and the China National Aviation Corporation (CNAC) should encourage them to do so.<sup>46</sup> So far as the method is concerned, there is no need for them to raise funds and establish a new company before merging with CNAC; they can invest in CNAC directly. If in future many individuals wish to invest in civil aviation, at some stage CNAC can solicit private funds. In view of the fact that all aviation equipment and materials are to be purchased abroad, private investment in CNAC should be in foreign currency.

B. According to reports from north China and east China, those regions have suffered a drought this year followed by waterlogging, so that next year there will be a considerable grain shortage. Yesterday the Government Administration Council<sup>40</sup> adopted a directive on relief for the afflicted areas, and the Central Financial and Economic Commission (CFEC)<sup>7</sup> has been holding separate conferences on agriculture, grain, and urban supply of grain.<sup>47</sup> Reports from the various regions reveal different situations. According to minimum estimates, east China will have a grain shortage of 550 million kg. and north China a shortage of 900 million, making a total of 1.45 billion. The CFEC has decided to transfer 750 million kg. from northeast China and 550 million from central China, making a total of 1.3 billion. With a view to making up the difference of 150 million kg., we have sent a telegram to Sichuan Province to inquire about the harvest there and the quantity of grain that can be shipped out next year. If Sichuan can spare 150 to 200 million kg., we can probably overcome the serious shortage. Our policy is to ensure that not a single person dies of starvation. Guangdong

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Drafted by Comrade Chen Yun on behalf of himself and Comrade Bo Yibao.<sup>38</sup>

Province, too, has a serious grain deficiency, and we plan to send Hunan rice to alleviate it. We shall appreciate all voluntary efforts by private merchants at home or persons living in Hong Kong to purchase grain from abroad with their own foreign currency. Relief work should focus on self-help for people in the stricken areas, who should be organized for production and mutual aid. Great efforts will be made to organize the transport of the grain at the disposal of the CFEC to ensure that it arrives in good time where it is needed. In short, there will be a grave shortage of grain next year, and we must do everything possible to solve the problem.

C. The Government Administration Council yesterday adopted regulations for the issuance of government bonds; they will be published in the newspapers soon.<sup>48</sup> The reactions we have received from various quarters so far indicate a consensus that issuing government bonds is a relatively good way out of our current economic difficulties. What is the reaction in Shanghai and Hangzhou? Please report on this at your convenience.

D. Some of the specialized conferences planned by ministries under the CFEC have already been held, including ones on tea, hog bristles, oils and fats, the customs service, taxation, salt administration, water conservation, coal, navigation, and highway and railway transportation. Others are now in progress on the subjects of grain, urban supply of grain, iron and steel production, and the postal service. Still others will be held soon on financial work, machine building, nonferrous metals, electricity, petroleum, paper making and telecommunications. The most important conference will be the one on financial work.<sup>49</sup> Since the greater administrative regions<sup>11</sup> will be holding meetings to discuss the Budget Estimates after they are adopted by the Central People's Government, the conference to be called by the CFEC of leaders in charge of financial and economic work in those regions will have to take place in late January next year. It would be best if you could come to Beijing to attend it. We shall keep you informed of major decisions taken at the various specialized conferences.

E. Railway repairs have been progressing rather quickly. The repair of the Beijing-Hankou Railway was completed on the fifteenth of this month, and work on the Guangzhou-Hankou line will be finished on the twenty-fifth. Along the Datong-Puzhou Railway, repair work has been completed on the section between Xinxian in the north and Yuncheng in the south; by the end of this year, repairs will also have been finished on the section from Yuncheng down to Fenglingdu and on the one from Hengyang to Guilin. All these lines will reopen for traffic by the end of the year. We are trying to have the Gangjiang River Bridge repaired in January, so that through traffic can be restored between Shanghai and Guangzhou. Railway repairs

have gone faster than expected thanks to the efforts of the railway workers and the help of the Soviet experts. Railway departments will continue to face an arduous task next year: more work will have to be done on lines that were repaired in haste this year, and most of the more than two thousand makeshift railway bridges will have to be rebuilt and made into permanent structures.

The above covers the main aspects of the financial and economic work done during your absence from Beijing. Please let us know from time to time your views on the work of the CFEC and also the views of comrades in the southern provinces.

## TECHNICAL PERSONNEL ARE INDISPENSABLE FOR CHINA'S INDUSTRIALIZATION

*December 25, 1949*

This Conference on Iron and Steel Production has been a great success. It has decided that our country's iron and steel industry should be concentrated in the Northeast, and it has set the 1950 target for production of pig iron at 880,000 tons. This is a major event. Although the Soviet experts have suggested a higher target, I think the task set by the conference is already a heavy one. We should work to fulfil and overfulfil this goal, and we hope all our comrades will make every effort in this regard.

Of course, there is no lack of difficulties. For instance, it will be hard to concentrate our limited number of technical personnel in a few places and to mobilize experts to go to northeast China for new economic work. Our problems in this connection arise from the following three factors.

First, the authorities of North, Central and East China and other regions are reluctant to release the necessary personnel. This problem must be solved at the present conference. At a time when our country is beset with financial difficulties, the decision to build an iron and steel industry in the Northeast is one of national importance. Selfish departmentalism is detrimental to the overall interest and is therefore intolerable.

Second, it is questionable whether the authorities in the Northeast will be able to make proper arrangements for the personnel sent there from other regions. As far as I know, China has no more than three million industrial workers and only about three hundred thousand technical and managerial personnel. All of the latter are willing to work, and with correct leadership they are capable of accomplishing a great deal. As a "national treasure", they are indispensable for the country's industrialization, and we should make the most of their knowledge. In the past couple of years there have been notable changes in the ideology and political awareness of our technical personnel,

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Excerpt from a speech summing up the National Conference on Iron and Steel Production.<sup>50</sup>

so we should no longer look upon them in the old light. Comrades in a national inspection group that recently returned from a tour of northeast China told me that the technical personnel there are not valued as their counterparts are in Shanghai. This problem merits our attention. We should trust the technical personnel and ensure that their material needs are met, so as to free them from family worries.

Third, there is the question of what approach the technical personnel themselves should take towards their remuneration and position. So far as remuneration goes, they aren't much better off where they are now, since there's only a difference of 50 to 100 kg. of millet<sup>42</sup> between areas north of the Great Wall and those south of it. As for position, I think there are two possible approaches a person can take. One is to go to the Northeast not to become a factory director immediately but to help the people there to accomplish something. It will not be too late to manage a factory after you have proved your professional competence. The other approach is to try to push others aside so that you can become the director the day you arrive. If you belittle other people's performance but are not sure how to do any better yourself, you may find yourself in an awkward position, and it would be very embarrassing to have to resign. If it were I, I would rather take the first approach.

To build up our country and raise the living standards of the masses, it is necessary to develop industry, which in turn calls for technology. It's good to have mettle and determination, but they alone are not enough. We also need to have scientific and technical knowledge and to carry on China's fine cultural traditions. We should rely mainly on ourselves and work together to make the best of what we have. We hope that, after this conference, large numbers of technical personnel will cheerfully go to work in the Northeast.

In the coming months our work will be unified throughout the country. Factors that once made unification difficult have now disappeared, and objective reality dictates that we exercise centralized leadership. Most of the liberated areas have now been joined together to form a contiguous whole. Railway traffic is being restored. Except for the Northeast, currency has been unified, and progress has been made in other fields too. When the War of Liberation is over and monetary value has been stabilized, the northeast currency<sup>19</sup> will soon be replaced by RMB. Nationwide monetary unification is only a matter of time, and it is coming fast. The Central Financial and Economic Commission<sup>7</sup> will hold a series of conferences to make the necessary arrangements, and all our comrades are expected to work towards this goal.

## **BRINGING FINANCIAL AND ECONOMIC WORK UNDER UNIFIED MANAGEMENT**

*December 28, 1949*

A. Since we have many new liberated areas, creating a system of basically unified management for the work of the major economic departments (e.g., those in charge of finance, taxation, public grain<sup>18</sup> and trade) will represent a great leap in our administrative work and will no doubt cause many problems. Judging from objective conditions, however, there will be even more disadvantages and bigger problems if we do not institute such a system. The reasons for this are as follows.

1. So far as expenditure is concerned, the central authorities have to provide funds (through the greater administrative regions) to cover the monthly expenses of both the main armed forces and the forces directly under the regions, or a total of 5 to 6 million troops. Up to now, they have done so by issuing bank notes.

2. As for revenue, because public grain and tax receipts are all controlled by county, municipal and provincial governments, the central authorities find it difficult to keep informed as to exactly how much has been collected and when. Yet sale of public grain and tax collection are the principal means, every month and every quarter, of raising revenue.

3. Now that we have a unified currency<sup>9</sup> and regular means of remitting money and transporting goods between areas south of the Great Wall, any monetary and price upheavals will affect the whole country. With the exception of the Northeast, no region can be immune from the consequences.

From this analysis we can see that if we unify our financial and economic work, we shall encounter fewer difficulties than if we do not, because we shall protect ourselves from devastating monetary and price upheavals. We should therefore try to overcome the lesser difficulties that may accompany unifi-

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Telegram to the East China Financial and Economic Commission, with copies to the financial and economic commissions of the Central-south, Southwest and Northwest Greater Administrative Regions.<sup>11</sup> It was drafted by Comrade Chen Yun on behalf of himself and Comrade Bo Yibo.<sup>38</sup>

cation and avoid the greater ones, such as sharp price fluctuations, that may arise is the absence of centralized control.

B. In the course of unification, comrades at lower levels may at first show less concern for collecting revenue than before and merely ask for allocations from higher authorities. It is quite right for us to foresee this possibility, but we should be able to forestall it or, if not, to overcome their passivity. To do this we must repeatedly explain to them the advantages of unification and the disadvantages of decentralization, remind them of the responsibility of revolutionary workers and at the same time ensure the funds needed to cover the expenses of the lower-level organizations. We sincerely hope that you will persuade the local comrades attending the current East China Conference on Financial Work to be prepared to hand over the necessary powers to the central authorities while boldly taking on their own responsibilities. This is the only way we can overcome our current difficulties.

C. As for the financial relations between the government of east China and the localities under its jurisdiction, we propose that in accordance with the principle of unification, public grain and local taxes should no longer be shared between them on a percentage basis.<sup>51</sup> Specifically, we make the following suggestions:

1. A share of all local taxes, with the exception of customs duties, the salt tax, the commodity tax<sup>52</sup> and the industrial and commercial tax,<sup>53</sup> should be given to local governments. However, we should set quotas for local taxes and compare the receipts with local expenditures. If there is a surplus, a percentage should be turned over to the central authorities; if there is a deficit, the central authorities should make up part of it. Local governments should be entitled to 50 to 70 per cent of all receipts in excess of the quotas.

2. All revenue in the form of public grain should be put at the disposal of the central authorities or of the greater administrative region. An exception is the local surtax, which should be put at the disposal of local governments with the approval of the central or regional authorities.<sup>54</sup> The central government or the regional governments should allocate grain to the provinces and municipalities once a year or twice a year, depending on whether the latter make up their consumption estimates annually or semi-annually. When additional grain is to be used to cover administrative expenses, the regional governments should consult the central authorities beforehand. Grain should not be distributed haphazardly but in a centralized way, so as to achieve an overall readjustment among the regions and among the big cities. In future, the sale of grain will become a major means of withdrawing currency from circulation. Grain belonging to the central

authorities should be subject to unified allocation by those authorities, but local governments should be responsible for storing it. In managing grain supplies we should apply the principle of subordinating local interests to national ones. That will prevent unnecessary losses due to bad management.

3. The current conference on logistics services is discussing the question of whether financial and material resources earmarked for the army should all be managed exclusively by the Logistics Department of the People's Revolutionary Military Council. Pending the final decision, such resources for both main forces and local troops should be provided by the logistics departments of the various military commands, but they should be reimbursed by the greater administrative regions.

Investments in major projects (such as those for railway and industrial construction and for water conservation) under the direct administration of the central ministries should be managed by the ministries themselves. Similarly, investments in major projects under the direction of the greater administrative regions should be managed by the regions.

## INDUSTRY AND COMMERCE IN SHANGHAI

*January 1, 1950*

Having received and read your telegram dated December 30, 1949, I should like to submit the following report.

1. With the exception of companies manufacturing luxury goods, private enterprises in Shanghai are now considerably better off than they were last June and July. Both the government and the industrialists and businessmen recognize this. The improved situation is due to the arrival in Shanghai of raw materials from the interior and to the reopening of the markets in central and south China. The situation will no doubt improve further following the liberation of the Southwest.<sup>55</sup>

2. According to a telegram dated December 3, 1949, from the Shanghai Municipal Committee of the Communist Party, many large and medium-sized factories in Shanghai were so heavily in debt that they were finding it hard to continue operating and were requesting loans from the government in order to avoid closing down altogether. Although that was true at the time, the difficulties were only temporary and essentially different from those of last June and July.

3. The current difficulties of private enterprises in Shanghai stem from their owners' overpessimistic estimate of the nationwide price fluctuations that occurred from October 15 to November 25 of last year.<sup>56</sup> Thinking that the RMB yuan would fall in value even more sharply than before and that the increase in interest rates would lag behind that of prices, they acted too greedily. Speculators tried to obtain loans to buy commodities, and ordinary factory owners chose to borrow money to meet expenses (payrolls, for example) rather than to sell goods in stock. However, interest rates went up so much that for every yuan<sup>2</sup> borrowed, the borrower had to pay two yuan per month in interest. And little did the capitalists expect that, beginning on November 25, commodity prices would fall and become stabilized. So now they were anxious to sell their goods to repay their debts. The more they

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Telegram addressed to Comrade Mao Zedong.

sold, however, the lower the price and the smaller the market; accordingly more and more of them tried to obtain new loans as a means of repaying the old. As a result, the money supply remained tight and interest rates remained high, despite falling prices. Quite a few capitalists complained incessantly about the lack of working capital. The contents of the Shanghai telegram of December 3 were a reflection of this situation.

4. On December 8, we allocated ¥50 billion to east China, most of the amount to be used for purchasing goods from private enterprises in Shanghai, a smaller portion to be made available to them in the form of loans. We plan to allocate another ¥100 billion if necessary. This action placed us in a very good position at the Second Shanghai Conference of Representatives of People from All Circles.<sup>57</sup> On December 22 the East China Financial and Economic Commission reported that it had been able to help surmount Shanghai's industrial and commercial crisis with an expenditure of only ¥20 billion.

5. Afterwards, Rong Yiren, owner of the Shenxin cotton mills, said that the Shanghai industrialists and businessmen had learned a lesson from the fact that this time the Communist Party had succeeded in stabilizing prices without resorting to political means.<sup>58</sup> The Party, he said, had put an end to the silver dollar crisis of last June by political means, whereas it had handled the recent situation through economic means.<sup>59</sup> This, he added, was something the businessmen and industrialists had never anticipated. Reports from various quarters show that most Shanghai merchants were particularly adventurous in their speculations during the recent price fluctuations, because they calculated that the RMB yuan would depreciate as drastically as the "gold yuan" notes had done.<sup>60</sup> In contrast, the Tianjin merchants, who had gone through three episodes of price fluctuation and stabilization since their city's liberation, were more experienced. They did not make overly daring moves but held back before going too far and consequently did not suffer too much.

The complaints of the Shanghai industrialists and businessmen early last month were partly intended to make people believe they were too hard up to buy any large amount of government bonds. Of course, their main problem at the time was a tight money supply and a lack of working capital. Knowing they could not oppose the issuance of government bonds, they gave it their superficial support while harbouring two hopes: first, they would be able to subscribe to a smaller amount of bonds and second, the government would purchase gold at a reasonable price. We have decided to fulfil their second hope and see to it that there is no serious strain on the money supply. In other words, everything will be done to keep it at an appropriate level.

## TWO TEN-DAY REPORTS ON THE FINANCIAL AND ECONOMIC SITUATION

### I

*January 22, 1950*

Following is a report on the major financial and economic events of the past ten days.

A. According to reports from various quarters, the total number of personnel in the country who are not engaged in production has exceeded 9 million: it now stands at 9.42 million. The regional breakdown is as follows:

East China: 2.75 million  
Central China: 2.4 million  
Southwest: 1.9 million  
Northwest: 1.02 million  
North China: 0.8 million  
Northeast: 0.55 million

All newly recruited personnel will be paid beginning this month. The Conference on Logistics has decided to increase military expenses so that the annual amount for every PLA man will total more than 2,000 kg. of millet.<sup>42</sup> This item alone will increase the national expenditure by 550 million kg. of millet per year. It is our estimate that following the liberation of Taiwan, Hainan Island and Tibet, the national total of personnel not engaged in production will top 10 million. Military operations across the water for the liberation of Taiwan and Hainan will require no less than 1 billion kg. of millet. According to the above estimates, the budgetary expenditure for this year will have to increase by 3.55 billion kg. of millet (2 billion for the 1 million newly recruited personnel, 1 billion for operations across the water and 550 million for increased military expenses). The people are very poor,

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Reports to the Central Committee of the Chinese Communist Party, drafted by Comrade Chen Yun on behalf of himself and Comrade Bo Yibo.<sup>38</sup>

but if we try to raise these enormous sums just by overdrawing bank accounts and issuing more bank notes, serious difficulties are bound to arise. We must therefore cope with the new situation by working out appropriate measures to increase revenue. We have the following measures in mind:

1. The Conference on Taxation and Public Grain Levy<sup>18</sup> has decided to try to increase receipts by 2.5 billion kg. of millet: an additional 1 billion kg. of public grain from the Southwest and the equivalent of 1.5 billion kg. in taxes from all over the country. In this way, even allowing for certain unfavourable factors, we can raise revenue by at least 2 billion kg.

2. Revenue can be increased by the equivalent of 750 million kg. of millet by making use of warehouse inventories. Some of the goods in storage can be sold, and others can be used as import substitutes. According to reports from personnel sent by the Central Financial and Economic Commission<sup>7</sup> to take inventories in Shanghai, the warehouses there are full of goods which, unless they are inventoried soon, may be wasted if they are disposed of without any plan.

3. The total number of personnel not engaged in production, 9.42 million, is an aggregate of estimates reported from different places. Since in all probability some of these estimates were considerably exaggerated or even falsified, we hope the true figure will turn out to be two, three or even five hundred thousand less. If so, that will mean a decrease in expenditure of 500 million to 1 billion kg. of millet.

4. We can cut administrative and miscellaneous expenses by the equivalent of 250 million kg. of millet just by economizing. Although this sum is not very significant, the measure is of great importance in that it will help to change people's habits.

To carry out the above four measures, we shall need the co-operation of the Party, the government, military and mass organizations, and the people. To this end, at the National Conference on Financial Work to be convened in February<sup>49</sup> we plan to organize two committees: one, to be headed by Chen Yun, will deal with warehouse inventories; the other, to be headed by Bo Yibo, will verify the staff size of the various organizations and see that economy is practised.

B. As a consequence of increased expenditure, the current situation with regard to currency issuance and commodity prices is as follows. At the end of last November, when commodity prices were stable, the total of bank notes issued was nearly 2,000 billion yuan.<sup>2</sup> Another ¥1,000 billion was issued last December. Cheques totalling ¥1,300 to ¥1,400 billion have been drawn this month, and by the 19th almost 1,000 billion yuan's worth of them had been cashed. Thus the amount of currency issued over the past 50

days has increased by more than 100 per cent, so that the cumulative total is now ¥4,100 billion. As a reflection of this situation, commodity prices rose by 10 per cent last December on a nationwide average and, taking the end of December as the base period, by January 19 they had risen another 30 per cent. The amount of increase has varied greatly both between regions and between commodities. In Shanghai the price of grain has gone up by 80 per cent, while prices of cotton yarn and cloth have risen by only a little more than 20 per cent. In central China, which is influenced by Shanghai, prices of grain and cotton cloth have climbed slightly. In north China they have remained basically stable, although they have risen a little simply because of the considerable increase in Shanghai. In south and southwest China commodity prices are far lower than in other parts of the country.

All this shows that Shanghai has too small a stock of grain, which is a major weakness. We estimate that the city had 75 million kg. of grain on hand at the end of December. As things stood on January 19, in addition to the grain sold on the market, the Shanghai Trading Company had sold 30 million kg. of the grain it had in storage, so that it has 45 million kg. left. Public grain from southern Jiangsu and Zhejiang has not yet been transported to Shanghai, and idle funds have therefore flowed into the Shanghai grain market. Faced with soaring grain prices, city residents want to buy more than they need. But the Shanghai Trading Company, having a limited stock, has been afraid to put it all on the market. The result is that the price of grain has risen out of all proportion to the price of cotton yarn, suggesting a repetition of the great price fluctuations of July and August last year,<sup>56</sup> although the margin of the current increase is not so large. This phenomenon is unfavourable to factory production in Shanghai.

To cope with a situation in which grain is more expensive than cotton yarn and idle money has converged at one point, we must increase our stocks of grain and of cotton yarn and cloth. In addition to the plan to import foreign cotton, which will be carried out as envisaged, we must bring in another 200 million kg. of rice from abroad, making a total of 300 million kg., including 100 million that Guangdong plans to import. As for the foreign exchange needed to import the rice, some of it can be drawn from the Hong Kong currency held in Guangdong, while the rest will have to be raised by the Ministry of Trade.<sup>34</sup> As an emergency measure to solve Shanghai's grain problem, first we plan to bring in public grain from areas along the Shanghai-Nanjing and Shanghai-Hangzhou railways and, at the same time, to expedite transport to the city of grain from central and northeast China. Every effort will be made to bring the price of grain into line with that of cotton yarn.

Up to yesterday, only ten million *fen*<sup>41</sup> of government bonds had been paid for by subscribers, most of whom are workers and other employees, only a few being industrialists and businessmen. Subscription quotas have already been assigned to the different trades in Beijing, and by the end of this month that will have been done in Tianjin as well. In Shanghai it may take longer. Industrialists and businessmen across the country only make a show of willingness to buy government bonds; inwardly they are reluctant to do so. Workers and other employees have been more enthusiastic, but in a few factories some advanced elements have compelled the backward ones to buy. We have sent telegrams to the various regions urging them not to let this happen. Judging from the above, there will be no large cash receipts from government bonds between late January and Spring Festival [Lunar New Year, falling that year on February 17], and expenditure and currency issuance will increase during the first half of February. Accordingly, we foresee that the national average price index will go up by another 30 per cent between now and Spring Festival.

C. The authorities of south and southwest China have just begun arranging for the collection of public grain, while in north China the collection has already been completed. The authorities of Henan, Hubei, Hunan and Jiangxi in central China, and of Shandong, Anhui and Jiangsu in east China may also finish the collection by the end of this month. The burden for north and northwest China is greater than that for east and central China. Landlords in these last two regions have been complaining about the payment of public grain and asking that the agrarian reform be carried out sooner than planned. This is because in many places the peasants have paid less land rent than they should have, or none at all, while no reduction has been made in the amount of public grain the landlords are expected to provide. The central authorities have ordered the regional governments, after completing the collection, to consider giving some material assistance to landlords who are really in difficulty. The authorities of both east and central China have replied by telegram that they are ready to do so. One major problem confronting us is the crisis in spring planting. Because the question of land ownership is still unsettled, the landlords are indifferent to sowing and the peasants reluctant to apply fertilizer. We are soliciting opinions on this important question from the departments concerned and trying to work out a solution with them.

D. On January 9, in the name of Comrade Zhou Enlai, we ordered the Kuomintang government organizations in Hong Kong to protect their property pending our takeover. Since then, those organizations have been in touch with our personnel there, as well as with the South China Sub-Bureau

of the Central Committee of the Party. The sub-bureau has set up a special committee, with Comrade Ji Chaoding as chairman, that will leave for Guangzhou tomorrow.<sup>61</sup> The committee plans to ask both senior and junior administrative personnel of the Hong Kong-based Kuomintang organizations to go to Guangzhou for talks. We propose that for the time being, these persons be entrusted with the task of maintaining the status quo, pending further arrangements to be made by order of the Central Committee, which will depend on the outcome of our diplomatic approaches to the British.

E. The specialized conferences held by the industrial and commercial departments have made it very clear that we don't have enough technical personnel and that those we do have are not assigned to the various regions in a rational way. Anshan and Berea, two cities that account for 80 per cent of the national iron and steel output, have only 25 per cent of the total number of technicians in the industry. In contrast, the areas south of the Great Wall, whose combined iron and steel output makes up only 20 per cent of the national total, have 75 per cent of the technicians. Northeast China produces more coal and electricity than the areas south of the Great Wall, yet it has fewer technical personnel than they do. We must therefore overcome selfish departmentalism and order a readjustment. Meanwhile, the authorities of the Northeast should raise the salaries of technicians working there and make sure they are assigned to jobs commensurate with their abilities. Under the puppet Manchukuo regime, the great majority of technicians in the industrial enterprises of northeast China were Japanese; only a handful were Chinese.<sup>62</sup> Most of the Japanese personnel left China after Japan's surrender in August 1945. We therefore face a substantial shortage of technical personnel for our industrial recovery and development in the years to come. The Central Financial and Economic Commission, therefore, has organized a special committee to work up an estimate of the number of such personnel we shall need in the next few years. The committee will then consult with the Ministry of Education on the number of students who should be admitted into the universities to study engineering and to study humanities.

## II

*February 1, 1950*

Following is a report on the major financial and economic events of the

past ten days.

A. Senior cadres of the various departments and organizations do not understand our current financial difficulties and the ways to overcome them. For example, they have drawn up overly ambitious budgets, planning to embark on all kinds of projects for economic recovery and development without regard to priority. Because the PLA men at the front often suffer from a lack of supplies, army cadres complain: “Why should the country try to feed more than nine million personnel when it’s so poor?” For their part, local cadres grumble: “We carry too heavy a burden in public grain and taxes.” In some provinces where there is a grain surplus, the cadres say that no public grain should be sent to the big cities and demand that what they collect be kept in their respective provinces. All these complaints are partly justified, but from an overall perspective, they are inappropriate and it is impossible to satisfy all the demands. An important reason why cadres do not understand our financial and economic situation is that we have not kept them informed. We therefore plan to brief them on actual conditions by issuing ten-day, fortnightly or monthly circulars on major events. If we familiarize leading cadres in the army and in local governments with the financial and economic situation, it will facilitate an exchange of views and help achieve a consensus, so that we can work together to overcome our difficulties.

B. As of now we have issued RMB to a value of ¥4,100 billion. In terms of prevailing commodity prices, the total monthly issue has been the equivalent of 10.7 billion kg. of millet. As a consequence of depreciation, the ¥4,100 billion is now worth only 2.45 billion kg. of millet, which means a loss of 8.25 billion kg., or 825 million silver dollars<sup>12</sup> of prewar days. This enormous loss in a single year provides a graphic example of the people’s falling standard of living. If this situation persists, they will find it hard to carry on.

C. While there was a marked increase in the number of military and government personnel last summer and autumn, and again this winter, public grain for this year is not yet due, and only a small amount of taxes from the new liberated areas has been trickling in. Moreover, in the three months from last December (when we unified the work of the departments in charge of finance, public grain and taxation)<sup>63</sup> through this February, expenditure and currency issuance will have increased considerably, since we first have to meet the needs of governments at the lower levels in order to encourage them to turn over the public grain and taxes to the central authorities. Although this is necessary, it should be limited to just these three months. Otherwise—that is, if public grain and taxes remain in the hands of the provincial and county

governments, while the central authorities only make financial allocations without receiving any revenue—the monetary and price situation will be reduced to chaos. Public grain and taxes should be turned over to the central authorities (part of the local tax<sup>51</sup> being left to the local governments), and supplies should be ensured, first of all, for the field armies.<sup>25</sup> As for supplies for army units directly under the central authorities and the greater administrative regions<sup>11</sup> and administrative funds required by governments at or below the provincial level, even if they are allocated two weeks or a month behind schedule, no one will starve to death.

In the recently liberated areas some difficulties will arise if public grain levy, taxation and finance are brought under basically unified management in March. Early unification, however, will involve fewer difficulties and disadvantages than continued decentralization. Towards the end of February, therefore, the authorities of the greater administrative regions should assign personnel to set up branches of the state treasury in all county towns and cities where our PLA units have arrived. Local tax receipts should be delivered to the branch treasuries every day or every three to five days. The People's Bank of China should be mainly responsible for establishing such treasuries, which should be attached to the branch banks or to the county governments. Local taxes should be turned over to the treasuries without fail, beginning in early March. In the present circumstances this is an absolute necessity, and it will be the main subject of discussion at the Conference on Financial Work scheduled for February. The authorities of the greater administrative regions must set about the necessary preparations at once.

D. The main question at present is: should we raise taxes and lower the amount of bank notes we issue, or vice versa? These are the only two alternatives—if we are going to lower taxes we have to issue more bank notes, and if we are going to issue fewer bank notes, we have to raise taxes. We either collect more of one or issue more of the other. There is no other choice. Some people want to reduce taxes and at the same time keep commodity prices stable. That is impossible. A comparison shows clearly that there are fewer disadvantages to raising taxes within reasonable limits than to issuing more bank notes. It is true that raising taxes will impose a somewhat greater burden on industrial and commercial enterprises, but commodity prices will remain stable, which will benefit such enterprises, or at any rate the legitimate ones. In contrast, if prices rise sharply, no one will be willing to invest in industry, and capital will lie idle or be used to hoard goods. As a result, workers will lose their jobs. This will inevitably cause a waste of capital and manpower, to the grave detriment of production. Some people say that a “moderate” price rise would stimulate production. We

think this argument is untenable, because any rise in prices would only slow production and cause the economy to stagnate. That would be retrogression. Issuing fewer bank notes and raising taxes might mean a greater burden, but it would contribute to price stability and enable the economy to expand gradually. Those measures can therefore be regarded as progressive.

E. As grain, cotton yarn and cotton cloth are the major commodities, the quantity of them we control determines the extent to which we can influence the market. The chief places to which idle capital is drawn are the three cities of Shanghai, Beijing and Tianjin, where it flows in to buy grain and cloth. These buyers are cunning; they often go for one particular commodity in a particular place (right now, for example, rice in Shanghai). This year east and north China are suffering a grain shortage of 1.5 billion kg. Although we have arranged to transport grain there from other regions, the shortage of grain is more critical than the shortage of cloth. So Shanghai, Beijing and Tianjin should always stock sufficient grain and cloth to meet the challenge of idle capital.

To cope with the price rise that may occur immediately after the Spring Festival holiday and with surplus capital on the market resulting from slow sales of farm produce at that time, we must take preventive measures regarding grain and cloth. The cloth for making unlined uniforms for military and government personnel should not be issued all at once; rather, the two uniforms per person should be made at different times. The coarse grain [corn, sorghum, millet, etc.] currently on hand in Beijing and Tianjin totals 175 million kg. (200 million kg. are needed), and the fine grain [rice, wheat] a little more than 50 million kg. Shanghai has less than 50 million kg. of grain on hand, which is far from adequate. According to a telegram from the East China Financial and Economic Commission dated January 26, only 50 million kg. of public grain can be shipped to Shanghai from Jiangsu, Anhui and Zhejiang provinces before Spring Festival. Because east China is a new liberated area and beset with many difficulties, the collection of public grain there will be late. But every effort should be made to increase the Shanghai Grain Company's stock of rice to 200 million kg. around the time of Spring Festival.

Additional rice can come from two sources: 1) Jiangsu, Anhui and Zhejiang, which should be the principal source; and 2) northeast, central and southwest China. The authorities of the regions that are to provide grain should expedite processing and transport, while the authorities of east China should organize the reception of incoming supplies. Measures should be taken to ensure that until the autumn harvest comes on the market, Shanghai and the Beijing-Tianjin region each hold in reserve 200 million kg., in addition

to the amount needed for daily sales. The specific methods should be as follows: 1) the authorities of east China should use public grain only for food and not divert it at will to cover administrative expenses; 2) they should make every effort to obtain grain from Central and Southwest China; and 3) the Ministry of Trade should import 200 million kg. of rice to aid Shanghai.

F. With regard to government bonds, the authorities of both Beijing and Tianjin have assigned subscription quotas to the different trades, but no reports have come in yet from Shanghai and central China. It seems that the Shanghai industrialists and businessmen are taking a wait-and-see attitude. In view of the present monetary situation, all the big cities (except for those in the Southwest) must finish assigning the subscription quotas to the various trades and individual enterprises by February 16; they should try to collect part of the bond payments in late February and all, or almost all, of them by the end of March.

## **FINANCIAL AND ECONOMIC PERSONNEL SHOULD RAISE THEIR POLITICAL AWARENESS**

*February 13, 1950*

At present we are still at war and beset with economic difficulties. Imperialists and Kuomintang reactionaries are still attacking us: they are our enemies and hope that our political power will soon collapse. Last year they blockaded Shanghai, and now they are bombing the city. They have declared that the bombing is effective and that if they keep it up for a long time, the foundation of the Chinese Communist Party's rule will be shaken. So we have a serious struggle ahead. And it is not only a military struggle but, increasingly, an economic one.

There are still people who resent us and others who just take a wait-and-see attitude. Not many landlords are enlightened, and most of them are hostile to us. As for the bourgeois, some of them are waiting to see what will happen, transferring their money to Hong Kong or the United States and at the same time asking our government for investment and loans. The remainder are simply against us. Certain capitalists in Shanghai once said that the Communist Party got a grade of 100 in military affairs, 80 in politics, and zero in finance and economics. In other words, they will challenge us in the economic sphere.

Since the establishment of the people's government, many people of good will—workers, students, democrats and others—have been worried about the economic situation. They are wondering if we can improve the economy. In short, they are very anxious.

The common people support us, and they want to see us overthrow the Kuomintang reactionaries and carry out agrarian reform.<sup>64</sup> But they will judge us not only by our military and political accomplishments, but also by our ability to solve economic problems—to stabilize prices and eliminate starvation. These are matters of great concern to the people, and the way we handle

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Excerpt from a speech delivered at the National Conference on Financial Work held in Beijing from February 13 to 25.

them will be a test of our capabilities.

Today our work involves not just one region or one army unit but the whole country, a country with 475 million people, a vast territory with rich resources. The victory we have won and our future performance in every field will not only affect the destiny of 475 million people but also have an important bearing on the struggle for liberation of people all over the world. If we do not understand this, we shall not recognize our responsibility.

To overcome our current financial difficulties and to develop our poor and backward economy, we have to bring together as many material and financial resources as possible for centralized use. In spite of our difficulties, we have good reason to be hopeful. So long as we can concentrate resources in the places where they are needed, we shall be able to accomplish the important things. We should not focus on minor matters but plan our work according to priority.

We comrades who are doing financial and economic work have a tendency to concern ourselves exclusively with the interests of our own department and our own locality, to the neglect of more important things. Let me remind you, comrades, that we have to raise our political awareness. First, we should view our work from a national perspective. If you find that what you are doing is inconsistent with the national goals, you should recognize your mistake and correct it at once. Otherwise, in a few years you may be asked to make a self-criticism in front of other people. You should try not to do something you'll regret. Second, comrades who are working in relatively prosperous areas with favourable conditions have a particular obligation to fulfil their heavy tasks, even in the face of difficulties. Third, the leading comrades in financial and economic departments should be the most advanced in their thinking. They should help other comrades to accept the principle that the part must be subordinate to the whole and immediate interests to long-term ones, thus encouraging them to take an overall view and to avoid localism and departmentalism. If they don't do that, it will be harmful to the work and to their comrades as well.

Leading comrades in charge of financial and economic work in the regions should not conceal any part of the revenue they have collected. If they do, we shall be unable to keep accurate accounts and there will be enormous waste in the use of funds. Wasting funds is a grave mistake. We should demand more of people doing financial and economic work than just that they not embezzle public funds—that was the only requirement in the old society. According to our standards, they must not embezzle funds, and they must not waste them either. In other words, they must use the material and financial resources of the state properly. By properly we mean at the

right time, in the right amounts and for the right purposes in the order of priority. To do this, they must have an overall view.

Leading personnel In charge of financial and economic work are sure to make mistakes, because our country is so large and the situation so complicated and unfamiliar to us. For this reason, we have to be careful, trying to avoid as many mistakes as possible and serious ones in particular. That is the only way we can overcome our current difficulties.

## DECISION ON UNIFYING NATIONAL FINANCIAL AND ECONOMIC WORK

*March 3, 1950*

Our present financial and economic situation is as follows.

1. According to reports from the greater administrative regions,<sup>11</sup> the total number of military and government personnel and teachers throughout the country is approaching nine million.

2. The quantity of public grain<sup>18</sup> set for last autumn has been collected for the most part, but in some places mistakes were made, and the collection has not yet been completed. Actual proceeds from taxation have also fallen short of the projected figure.

3. Up until now, most state expenses have been borne by the Central People's Government, which has covered them in various ways, including by issuing more currency. Meanwhile, the revenue in public grain and taxes has been administered mainly by the people's governments of the various regions, provinces, municipalities and counties. If it is allowed to continue, this arrangement—decentralization of finance and separation of collecting organs from disbursing ones—will inevitably lead to the issuing of still more currency.

4. Except for Tibet, all of China's mainland has been liberated. Any monetary and price fluctuations caused by an increase of currency will therefore affect not just one locality but the entire country. Because of the tremendous hardships people have suffered through twelve years of war<sup>20</sup> and inflation, we must do our utmost to prevent further inflation.

The circumstances mentioned above—that is, the unfavourable balance of revenue and expenditure and the separation of collecting organs from disbursing ones—if not quickly altered, will upset our 1950 Budget Estimates and cause monetary and price fluctuations that will only aggravate the

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Decision drafted by Comrade Chen Yun on behalf of the Government Administration Council. It was adopted at the twenty-second meeting of the Council and published in *People's Daily* on March 4, 1950.

the Red Army. Those who did not want to join were given travel expenses and escorted beyond the cordon of the Red Army. Zhu De personally called together high- and middle-ranking officers who had been captured and talked with them. He consoled them and informed them that the purpose of the Red Army was to resist Japanese aggression and save China. He said he hoped that all Chinese soldiers might cooperate with each other. He related to them that any captured officers were welcome to join the Red Army, but that if they did not want to do so they would be given travel expenses and escorted out of Red Army areas. This was an innovative procedure for dealing with captives, and so the officers who were freed by the Red Army were indeed amazed at their good fortune.

This victory shocked the Nanjing Army and the warlords in Sichuan, Yunnan, Guizhou and Hunan. Xue Yue and Zhou Hunyuan now believed that their military forces had to be redispensed and that the Sichuan Army should not risk forging ahead. The Hunan Army dispatched several divisions which were besieging He Long and Xiao Ke's troops in an attempt to safeguard the eastern bank of the Wujiang River. According to a later Red Army victory report, He Long and Xiao Ke's troops thereafter captured a whole Hunan Army brigade which was under the command of Chen Quzhen. Following the Zunyi victory, Red Army soldiers and low-ranking officers all wanted to engage Xue Yue and Zhou Hunyuan's troops, saying that it was not good enough just to be able to capture the inadequate weapons of the Sichuan, Yunnan and Guizhou armies, and that if they could engage the Nanjing Army, they could capture modern weapons and large quantities of ammunition. From this we can see how boastful they were feeling.

The Red Army were able to defeat Wang Jialie and Wu Qiwei's troops because of two factors. One, the Red Army fought tenaciously and had been united. When You Guocai entered Tongzi for the second time, there was a 13-year-old Child Bureau secretary (an activist among the children) in the local working team who had been sent by the Political Department of the Red Army. On his way to Tongzi from Jiangxi, he had been blocked on the mountain near Loushanguan and had lost touch with the Red Army. But this 13-year-old boy was neither afraid nor discouraged. He continued on his difficult journey through the mountains for two days and three nights and at last met up with the Red Army. I heard that the child could not obtain any water during his journey and drank his own urine. This shows how strong the feeling of unity is among Red Army soldiers. The other factor is that there was a large number of new Red Army recruits from Guizhou Province. These soldiers were very angry at the Guizhou authorities for the exorbitant taxes and levies which had made their lives so difficult. This is why they

fought so bravely. Moreover, the new recruits were familiar with the roads in Guizhou. Several times they assisted the Red Army in outflanking Wang Jialie and Wu Qiwei from the rear through utilizing shortcuts. Because of this, Wang and Wu's troops were finally captured. This is how the Red Army could escape heavy losses of personnel while engaging in so many battles. Wherever they went, their fighting capacity could always be strengthened through mobilizing local people.

After the Zunyi victory, the Red Army stationed large forces in Yaxi (30 km southwest of Zunyi), making several attempts to lure Xue Yue and Zhou Hunyuan's troops and the Sichuan Army into decisive clashes. But Xue and Zhou's troops and the troops of the Sichuan Army under Guo Zunqi, Liao Ze and Pan Zuo were being extremely cautious and would only build blockhouses. Having failed to achieve their strategic goal in northern Guizhou, the Red Army marched quickly to the Wujiang River to attempt a secret crossing and planned to advance south towards Guiyang. The Guiyang authorities were very shocked. When I arrived in Shanghai later, I read in the newspaper that the Guiyang airport had been taken by the Red Army and over 20 airplanes had been destroyed.

At that time I had the idea that the Red Army was going to enter Sichuan after marching south to cross the Wujiang River. But instead they moved east with the intention of feigning an attack on Weng'an and Huangping. The Nanjing Army was heading east and the Yunnan Army was marching out of Yunnan towards Guiyang, so the Red Army advanced along a route between Guiyang and Longli. Feigning an attack on Guiyang, the main force of the Red Army seized Dingfan,<sup>127</sup> Changzhai,<sup>128</sup> Ziyun, Zhenfeng, Anlong, Xingyi and other county towns, and then crossed the Beipan River. This initiative fooled Generalissimo Chiang entirely. While the fourth brigade of the Yunnan Army was away in Guizhou, the Red Army took advantage of this easy opportunity to enter Yunnan. Leaving the Nanjing Army, the Sichuan Army, the Guizhou Army and the Yunnan Army behind, the Red Army continued to advance without meeting any resistance, disarming a few Yunnan Army troops, seizing many cities, and in Kunming, cutting off several motor routes to Guizhou. After accomplishing this, they were able to cross the Jinsha River unhurriedly.

Two interesting incidents of amusement to Red Army soldiers occurred after they entered Yunnan. One was that while the Red Army was marching towards Malong after encircling Qujing, they captured a car coming from Kunming in which sat one of Xue Yue adjutants. In the car were many military maps and a well-known *baiyao* useful in the treatment of bullet wounds, which is produced in Yunnan. According to the captured adjutant,

he had been sent by Xue Yue to visit Long Yun. Two days before, Xue Yue sent a telegram requesting Long Yun to send him some military maps. Long Yun planned to send them by plane, but the next day the pilot fell ill, so he used this car, being unaware that Qujing had been encircled and all motor routes were blocked. The car was also loaded with local *baiyao*, Xuanwei hams and famous Pu'er tea. When it was 10 kilometres from Qujing, the car ran into the Red Army. The adjutant and his guards were disarmed, and the military maps, which were not to reach Xue Yue, were used by the Red Army when they crossed the Jinsha River. All of the *baiyao*, hams and tea were consumed by the Red Army. When the Red Army soldiers talked about this incident, they would convulse in laughter.

The other incident occurred when the Red Army entered Songming City and Guandu.<sup>129</sup> It found itself being welcomed by county magistrates, local army personnel and police leaders, who had no relationship with the Red Army. Yunnan is in southwestern China, people there did know that the Red Army was operating in Hunan, Hubei, Jiangxi, Sichuan and in other provinces. But the Red Army soldiers were always been described in official notices as “Red Bandits” who, in the minds of local people, must be like all other bandits — ragged, destitute, poorly equipped individuals who went about looting people. By the time the Red Army arrived here, the local people found that it had not been robbing people along the way; instead, it was well disciplined, acted fairly in any cash dealings, was tidily dressed and had many modern weapons, which was not to be seen in the Yunnan Army. So the local officers and gentry were quite certain that this army must be the Nanjing Army, as it outdid the Yunnan Army in discipline and appearance. The road was lined with a welcoming party who handed out military grain and funds as had been ordered by the provincial government. They had also recruited several hundred porters and a large number of guides to serve the “Nanjing Army.” Pretending to be the “Nanjing Army,” the Red Army accepted all these military supplies and labourers and also attended a grand local banquet. At the banquet, the county magistrate introduced himself, a local director, a civil corps commander and some of the local gentry to a Red Army officer. Then, local leaders asked this “Nanjing Army” officer to give a talk. The officer stood up, shouting “Comrades!” Some of the Red Army soldiers who had been hiding immediately came out and aimed their weapons at the local leaders. The Red Army officer declared: “We are not the Kuomintang’s Nanjing Army, but the Red Army from the Central Soviet Area.” On hearing this, the local leaders looked at each other and turned pale. But the Red Army did nothing further to embarrass them; they just offered a few words to comfort them and then left.

The Red Army immediately called together the several hundred porters and guides who had been sent by the local government, announced that this was not the Nanjing Army but the Red Army, and asked whether these people were paid or forced to serve the Red Army. They all responded that they had been coerced to serve without pay and that their families would soon die of hunger without their help. A Red Army officer immediately responded: "The warlords and bureaucrats in Yunnan have been mistreating you; the Red Army will now let you return home. But if any of you are willing to stay and serve the Red Army, you will be paid a half silver dollar a day plus half a month's salary in advance for your families." More than nine tenths of the porters and guides expressed their willingness to be employed by the Red Army. Only ten or so wished to return home; each of these was given a silver dollar for their journey.

I had a favorable impression of Yunnan. The Red Army soldiers thought that a plateau in western China would have to be very mountainous and difficult to traverse, offering vile weather and inadequate resources. To our surprise, we saw large areas of plain in the northeast. Travelling from Guizhou to Yunnan, the terrain became higher, but it was different from that of Guizhou. On the march towards Yunnan, we saw many tall mountains. Each time we reached a mountain top, we stepped out on a tract of plain from which we would inevitably again face a tall mountain with another plain up higher. The terrain became higher and higher with plains stretching for tens or hundreds of *li* surrounding every county town and city. Local people called these Kunming Bazi, Dali Bazi and Qujing Bazi. The roads in Yunnan were so smooth and wide that they could accommodate mule-drawn carriages, which were most commonly used vehicles in northern China. Here it had been easy to develop transportation. For instance, it was much easier to build motor routes here than it was to tunnel through the mountains of Guizhou. So motor routes in Yunnan had been developed long ago.

Yunnan's climate is excellent, far superior to Guizhou where fine weather never lasts long. The weather around Kunming is as mild as that in Jiangsu and Zhejiang. When we passed through an area by Qujing, we had to take off our cotton-padded clothes. Then, the weather changed drastically on the same day. Around five o'clock in the afternoon there were cold wild winds and rain.

Thanks to its good climate, much rice and cotton are grown in Qujing, Malong and in northeastern Yunnan, and Yunnan opium which grew everywhere was known throughout China. Yunnan opium was more expensive than the opium grown in Guizhou, Sichuan and other provinces because

its fruit was as large as a man's fist. Yunnan opium was very inexpensive. In Malong and Songming, a silver dollar could purchase 250 grams of crude opium. I often bantered that if the addicts in Jiangsu and Zhejiang knew how cheap crude opium was here, they would start drooling.

In Yunnan, the Han people accounted for the largest part of the population, the rest were Miao, Yi and Hui people. At that time, the Yi people ruled the province, so they were relatively wealthy. In some rural areas they headed most of the villages or districts. In passing through Guandu, we encountered an area stretching for tens of *li* inhabited by Hui people who had adopted the same customs and habits of the Huis in Jiangsu and Zhejiang and went to mosque. As many Huis from Gansu were serving in the Fifth Army Group, the Red Army got along well with local Huis and showed much respect for their mosque. The Red Army Leader Zhu De visited the mosque in person and talked with the religious leader. The following day the Huis expressed their amity with the Red Army by lining up to see the latter off. At this time, dozens of Huis joined the Red Army and were later formed into an independent brigade so that they could maintain their own customs, habits and diet.

In Kunming I noticed that many male and female residents of thirty years of age or above had throat tumors. I soon learned that about eight tenths of the local residents had these tumors because of the lack of iodine in the spring water. In one of mountains, spring water could be so caustic that it burned the throat. For this reason, the Red Army soldiers avoided using this water when passing through.

Yunnan's climate, resources and terrain impressed me very favourably. Also, politically, Yunnan has had a glorious period, such as the time that insurrections against Yuan Shikai<sup>130</sup> in support of the Republic took place.

The Red Army's intention in entering Yunnan was to cross the Jinsha River. To this end they followed two routes. The main force occupied Zhanyi,<sup>131</sup> Malong, Xundian and Songming and pressed on towards Kunming. The rest of the forces drew the Guizhou Army and Yunnan Army towards the border of Yunnan and Guizhou, defeated the fifth regiment under the command of You Guocai and captured many weapons. After this victory, they entered Yunnan and seized Xuanwei and Dongchuan and then pushed on towards Qiaojia County and finally crossed the Jinsha River. As the main force of the Red Army was approaching Kunming, the whole province panicked. But it was not the intention of the Red Army to occupy Kunming, but rather to lure the Yunnan Army back to the city to reinforce their troops and so be unable to move towards the Jinsha River. In the meantime, in order to confuse the pursuing troops, the Red Army, who had

planned to cross the river at the Jiaoxidu,<sup>132</sup> pushed westward and occupied Luquan, Wuding and Yuanmou and then shifted north into Longjie and feigned a crossing. The pursuing troops again fell into the trap. All of the enemy troops, the army under Zhou Hunyuan, the Yunnan Army and the Hunan Army pressed on towards Yuanmou while the main force of the Red Army crossed the river safely at Jiaoxidu. The Red Army troops which feigned the crossing at Longjie also turned back, taking a shortcut. It took nine full days for the Red Army to cross the river. The pursuing troops did not know of this crossing until the Red Army approached Huili Prefecture<sup>133</sup> following the occupation of Tong'an Prefecture.<sup>134</sup> By the time that the pursuing troops turned back to Jiaoxidu, the entire Red Army had crossed the river and had destroyed the boats. It was not until the afternoon of the eleventh day that the pursuing troops under Zhou Hunyuan approached the river. Red Army troops were now defending the river from a cave on the north bank, making it impossible for them to cross. They had to give up in despair. The success of this stratagem exhilarated the Red Army soldiers. A new drama entitled "Ragged Straw Sandals" was carried in the Fifth Army Group political department newspaper. It described how Generalissimo Chiang had pursued the Red Army in Jiangxi and in other provinces for more than six months, but could only manage to trail behind and secured nothing other than the ragged straw sandals which Red Army soldiers had discarded. The drama showed how highly spirited the Red Army soldiers were at the time.

Crossing the Jinsha River was the Red Army's most dangerous yet most fulfilling experience since leaving Jiangxi Province. I noticed that newspapers published in Shanghai and in other areas gave no precise details of this crossing. As I had personally taken part in this, I too felt this experience to be one of the unforgettable blessings of my life.

The Jinsha River, which is at the upper reaches of the Yangtze River, originates in Qinghai. It is called the Jinsha River in Xikang and Yunnan provinces. Where it flows down to Yibin (Xufu) in Sichuan, it is called the Yangtze River. On both banks of the Jinsha River were tall mountains and steep cliffs, except for a few crossings. In marching from Yunnan to about 60 *li* from the river, we first descended about 40 *li* towards Jiaoxidu and then advanced another 20 *li* towards the river. On this march, formidable mountain peaks of fantastic shapes appeared and turned golden in the setting sun. From Jiaoxidu to the river, the slopes became steeper. As we descended, we had to use walking sticks so as not to tumble down into the gully. On the 20-*li* march towards the river, it was very hot — this was at the end of April. There were few trees and very little grass, and it became hotter as we

descended. Upon reaching the river bank where the weather was even hotter, the Red Army soldiers avidly consumed the cold water. Here lived about six families who worked as ferrymen. Because it was hot here in spring and summer and cold in autumn and winter, they lived in caves. According to a legend, it was here that Zhuge Liang crossed the Lushui River and entered into a barren land during the period of the Three Kingdoms. *The History of the Three Kingdoms* also describes the weather to be hot beside the river and that 1,500 out of 2,000 men under the command of Ma Dai who crossed the river died of water poisoning, which might be true.

On the north bank of the Jinsha River there lived about seven ferrymen and their families, and there was a checkpoint at which taxes on goods flowing between Sichuan and Yunnan were collected. I heard that Yunnan opium was twice as expensive after it had been ferried across the river. The local residents referred to the north bank "Sichuan" and the south bank "Yunnan." As I prepared to cross the river, I noticed that the people seated on the boat were not distributed evenly and that one person was standing in the middle, so that the front of the boat tipped downward. The ferryman shouted: "Back to Yunnan, sir!" This was his way of directing the man standing at the center to move to the back (southward towards Yunnan) in order to level the boat. At the south bank of the river boats were moored to a sandy beach. But on the north bank there were only cliffs and so boats had to be moored in a 100-metre-long man-made tunnel. People had to pass through the tunnel and then travelled east towards the checkpoint in the mountain. At the time that we crossed, the river had not yet risen and the water level was two zhang below the tunnel entrance, and we had to climb stone steps to enter the tunnel.

The Jinsha River is about half as wide as the Huangpu River. Standing at the river, you cannot hear cries from the opposite bank. The river flows swiftly from west to east at about 5 metres per second. At the upper reaches, the water pours down like a waterfall from high above. The waves of the river, usually about 2 *chi* high, can swell to about 4 *chi* during a raging storm. The winds are horrible. When I began to cross the river, a gust of sandy wind suddenly roared up and blew away the straw huts which the residents had built in the caves alongside the river. As I was standing there, a wild wind suddenly toppled me over. The force of this wind surprised us all. But 30 minutes later the storm was over and the sun came out. In asking the local residents about this, we were made to understand that a storm usually lasts less than half an hour, and then after which the sun reappears. This is how dramatically the climate can change in western China.

The Jinsha River was too swift to sail upon. Wooden boats were used

only from Yibin to Luzhou; steamers were used from Luzhou downward. But boats were adequate from Dongchuan and Qiaojia downward. From Qiaojia going upwards there could be only about ten boats waiting at each crossing. From Longjie travelling upwards, only boats made of animal furs were used, each ferrying only one person. The reason for using fur boats to sail up the river was that the river was very swift and there were many reefs, so wooden boats could be easily destroyed.

The Red Army was unable to build a floating bridge to facilitate a crossing. They had only six boats, collected from Jiaoxidu and other crossings nearby. The larger boats could carry 30 people and the smaller ones, 11 people. These boats were leaking and it was necessary to empty the boats of water before each crossing. The river was very swift, so only three or four crossings could be made in an hour. Since almost the entire Red Army was to cross the river here, wood fires were lit on both banks at night. The fires cast light across the surface of the river and enabled the Red Army to cross the river throughout the night.

It would have been hard to believe that the Red Army could manage to cross the Jinsha River using only six shabby boats unless one saw it for oneself. But this is actually how it was done. Of course, the reason why the Red Army could cross the river unhurriedly was that the Nanjing Army and the Yunnan Army had fallen into its trap, that is, making a feint to the east while actually attacking in the west. Because this strategy succeeded, the Red Army had plenty of time to ferry all the troops across the river. Another reason why this could be accomplished was that the Red Army had skillfully organized the crossing. If they had failed in that, the men and horses might have crowded chaotically onto the boats and caused the boats to capsize. And had the boats been even slightly damaged, the crossing would have been even further delayed. This demonstrated how much better the Red Army was organized than the Nanjing Army and other provincial armies. The headquarters of the Red Army and the Central Committee organized the crossing headquarters made up of senior communist cadres. All troops had to follow instructions. They were requested to cross the river in turn according to their time of arrival at the river. Notices on related discipline were posted along the approach to the river. When troops arrived by the river, they were requested to stop and not to approach the boats until they heard the bugle call. As vacant boats arrived, a certain number of men, appropriate to the size of the boat, were instructed to go down to the sandy beach and to take the boat designated beforehand by number. For each boat, a maximum capacity was defined. The troops were ordered to form a queue and go aboard one at a time. A commander would ride in the boats alone with the ferrymen

to direct the soldiers. In obeying orders, the Red Army did much better than the National Army. For example, even division or army group commanders had to wait in line and would not disregard orders from the crossing headquarters. The capability of the Red Army was manifested not only in maintaining order but also in successfully organizing the ferrymen. On the first day, there were only 18 ferrymen, but later the number had been increased to 27. This was because the crossing headquarters sent communist cadres to conduct publicity and offered good pay. I learned that each ferryman was paid five silver dollars for a full day's work. Since most ferrymen smoked opium, the Red Army kept a cauldron of Yunnan opium burning and allowed the ferrymen to use it freely. They were also given six meals a day for which pigs were slaughtered, while the communists who commanded the crossing ate only peas. There is a saying that "when a high reward is offered, brave fellows are bound to come forward." This proved to be quite true. I also learned that after the Red Army soldiers crossed the river, they destroyed the six boats. These boats had been owned by Jin, the local Yi chieftain. Realizing that the ferrymen would now, temporarily, be unable to earn a living, the Red Army gave them each 30 silver dollars and several *jin* of opium in addition to their salaries. Thus, most of the ferrymen were well disposed to the Red Army and followed them to Sichuan.

Red Army soldiers took their guns with them in crossing the Jinsha River on boats. But the horses were not allowed to ride the ferryboats. The grooms were ordered to leave the saddles behind, sit at the stern and firmly grasp the reins of the horses which had been brought to the riverside. As soon as the boats left the river bank, soldiers drove the horses with whips. The horses were thus forced to follow the stern and swim across the river. The Red Army was very proud that they had crossed the Jinsha River without losing a single person or horse. This was really an exciting episode.

After the Red Army crossed the Jinsha River they saw before them a road leading uphill, extending 30 *li* from the north bank of the river to Tong'an Prefecture in Sichuan Province. The mountains were very tall and were all barren. There were almost no trees. On the way, we met with only one family, and only once in a while did we see flocks of sheep on the mountain slopes. Another uphill road 30 *li* in length extended from Tong'an Prefecture to Huili Town. Thereafter, the road became a little smoother but with tall mountains on either side of the road. Tong'an, a prefecture of about 300 households with a primary school, was the primary location where people from Sichuan and Yunnan provinces engaged in trade. When I arrived in Tong'an, I saw several hundred villagers wearing strips of red cloth lined up and about to join the Red Army. I was told that the Communist Party had

organized a revolutionary committee and an army to fight against the levying of taxes in Tong'an Prefecture. On our approach to Huili from Tong'an Prefecture we had seen in the distance that the city was burning. When we arrived at our campsite we were informed that the division garrisoned at Huili was led by Liu Yuantang and was part of Liu Wenhui's Chuan-Kang Army. Fearing that the Red Army might climb the city wall, they had burned all the houses on the outskirts of the city. This incited widespread indignation among the people living there, and several thousand of them cooperated with the Red Army in attacking the city. I heard later that most of them had joined the Red Army.

Because Liu's division was determined to defend Huili to the last, the Red Army did not attack, but just kept a watch on the city. This allowed them time to rest and recruit before the pursuing Nanking Army could cross the river. The General Headquarters of the Red Army gave orders that the entire army could rest in Huili for five days and that each army unit should intensify its publicity work among the residents. The General Headquarters requested that 5,000 new soldiers be recruited. All army units and the General Health Department immediately acted upon this. Five thousand people were actually recruited within five days. The Red Army was able to obtain frequent recruitments because the Red Army was good at publicity among residents and because conditions for the residents of Yunnan, Guizhou and Sichuan were extremely difficult. The residents of Huili were extremely indignant at Liu Yuantang's oppression. Many exorbitant taxes and levies had emerged one after another. Liu Yuantang coined his own copper "silver dollars" and arbitrarily ordered all residents to use these. If there were three able-bodied men in one family, one of them would be pressganged; if there were five able-bodied men in one family, two of them would be pressganged. Young women were raped and if they did not submit to this, their families would be harassed. Because the Red Army was leading the poor to "Fight Against the Lius" and to "Expropriate the Local Tyrants," tens of thousands of poor people joined the Red Army.

Five days passed. The Red Army then marched northward by way of Huili, Dechang, Xichang, Lugu and Yuexi,<sup>135</sup> marching 60 to 70 *li* a day. In 29 days they reached the Dadu River. The Red Army, eager to cross the Dadu River, had not taken any action against Xichang. Instead, it took a detour and continued advancing northward. Along the Aiming River there was a road leading from Huili to the Dadu River. The smooth section of the road could be as wide as 20 *li* or more. But some sections were extremely narrow. On both sides of the Anning River there were tall mountains where the Yi people resided. The Han people lived along the road beside the Arming River.

Because conflict between the Yi and the Han people was very serious and the Yi people often descended the mountains to attack Han villages, every Han family had built a watch tower to protect themselves against the Yi. When the Red Army arrived at Lugu, its forces were divided into two columns. The smaller one went to the south bank of Fulin and pretended a crossing of the Dadu River so that the enemy on the opposite bank would be distracted. The larger column marched northwestward via Lugu and occupied Mianning County to attempt a crossing of the Dadu River from Anshunchang. But in order to reach Anshunchang by way of Daqiao Town which was 50 *li* from northwest Mianning, the Red Army had to pass through the mountain inhabited by the Yi people. It would take them two and a half days to cover this distance. This presented a significant obstacle for the Red Army at that time.

The Yi people in Sichuan Province were feared throughout the province. Daliang Mountain, to east of the Anning River, was a Yi base area. The Daliang Mountain range was very large, extending south to Ningnan County, north to the Dadu River, west to the Anning River and east to the Leibo-Mabian-Pingshan Mountains along the Jinsha River. The region between northwest Mianning and south of Kangding belonged to the Yi people. The Yi had their own army. Yi people living in the mountains northwest of Mianning were armed with several thousand rifles and a small number of portable machine guns. These weapons had all been captured from Han armies. The land along both banks of the Anning River had once been the property of a leader of the Yi people. After Liu Wenhui's failure in Chengdu and entrance into Yazhou, this Yi leader had been forced from the land and Liu Wenhui seized it. Because of this, the Yi hated Liu's army. In actuality, Nanjing government officials had control only over the Han people who lived on the plain beside the Anning River. The Yi people had not submitted to the control of the government and refused to pay land taxes or other levies. Because of this, government armies would have to cross the Yi people's mountains in great numbers for self-protection. Otherwise, their weapons could be seized.

The Yi people in that region consisted of several tribes. In this, they were different from ethnic groups in Inner Mongolia and Tibet. They were of a suspicious and jealous temperament. Family feuds existed between tribes and the Yi often fought each other. The Yi people lived a semi-nomadic, semi-agrarian life. Their main crop was maize and they raised oxen, sheep and horses.

The Yi ethnic community had two classes. One was the Black Yi, the ruling class of the Yi people; the other was the White Yi, who were the Black

Yi's slaves. The White Yi, who engaged all their lives in farming for the Black Yi, could secure nothing for themselves other than food and clothing. A Black Yi had the right to kill a White Yi at any time. Generally speaking, most Black Yi owned several dozen to several hundred White Yi who worked for them. This freed the Black Yi from having to toil the year round. Black Yi and the White Yi were not allowed to intermarry. At that time, the Black Yi population was gradually decreasing, but they still maintained their ruling position. The leader of these Black Yi people was the "chieftain." The White Yi had been captured by the Black Yi; they were formerly Han people. The Black Yi at Daliang Mountain and in the mountains northwest of Mianning often exchanged Han prisoners so that they would not know a route of escape. The Black Yi arranged the marriages of White Yi men and women, who were called "Wazi." Every Black Yi family had to entrust one White Yi person to manage household affairs. This White Yi was usually in charge of the family's income, expenditures and various daily affairs. Because the Han people indiscriminately opposed all Yi people, the White Yi cooperated with the Black Yi in fighting the Han. Whenever the Black Yi battled with Han armies, the White Yi would participate in the fighting.

Trade between the Han and Yi peoples was done through interpreters. Although some Yi people could speak Chinese, they did not want to leave the mountains because they were afraid of being killed by the Han. So the Black Yi used the White Yi to contact the Han. The Yi people would often trade furs and musk for cloth and salt.

The Yi people were very different from the Han people in dress. With a piece of black cloth wrapped around their heads and one *chi* of the cloth hanging behind, they resembled the Indian policemen of Shanghai.<sup>136</sup> Some had their noses pierced with silver rings. Both men and women wore earrings made of bones. They had swarthy complexions. The woolen clothes they wore, which they wove themselves, were similar to the *kasaya* worn by Buddhist monks. (This kind of coat, light and soft in texture, was good protection against the wind. I think it would be very suitable for us in marching.) The weather in the mountains changed several times a day. It could be burning hot at noon and then there might be a strong wind in the afternoon, rain in the evening, and the sky could be clear by the morning of the following day. So whenever the Yi people went outside, they had to carry their coats with them. Every Yi person carried a sharp sword for protection and also for cutting meat. They wore leg wrappings but they never wore shoes or socks. A few wore straw sandals. Because they had been born here and grew up in this mountainous region, they were good mountain climbers. At the approach of the Red Army along the mountain road, the

Yi people ascended the large rocks beside the road so quickly that they looked like monkeys or apes.

The Yi people led a very difficult life, much more so than that of the Han. The Han people had level land to till; the Yi people had only mountainous land because the good farmland had been taken from them by the commanders of the Sichuan Army and local officials. As we glanced up at fields for crops on mountain slopes, we were astounded at the acute angles; these fields sloped as steeply as cliffs. But the Yi people had to plant on these all year round. Because they could plant only in mountain fields, their diet consisted mostly of maize. The houses of the Yi people were extremely simple; the walls were made of bamboo and the roofs were covered with pine bark. These houses were very damp and swarming with fleas.

There were over than ten tribes of Yi people living in the mountains through which the Red Army had to pass. After climbing 10 kilometres from the town of Daqiao, the vanguard regiment of the Red Army was suddenly encircled by Yi people from three of these tribes, in the front, at the back and on the left, an attempt to seize Red Army weapons. But the Red Army was good at publicity; they declared to the White Yi people that the Communist Party advocated equality of all ethnic groups, that is was opposed to the oppression of the Yi people by the Han warlords and that it was their intention to fight Liu Wenhui's troops, which were cruelly oppressing Yi people. This was what the Yi people had eagerly requested. Thereafter, the leader of the vanguard regiment and a head of the Guji tribe took an oath by smearing the blood of a cock into a bowl and drinking it, swearing that they would join forces to attack Liu's troops. After the oath, some members of that tribe were incorporated into the Red Army as a "Red Army guerrilla detachment." They served as guides and persuaded the rest of the tribes including the Ayue and Luohong tribes not to oppose the Red Army. Later, when the main troops of the Red Army were passing through the mountains here, they received a warm welcome from the Yi people who provided them with cattle and sheep. The Red Army offered them fur clothing, old guns, salt and cloth in return. This is how we were able to pass safely through the mountains which had been so foreboding to us.

After that, the Red Army continued to march towards Kailuochang,<sup>137</sup> a town of over 20 households. Here an interesting episode is worth mentioning. The grain needed by Liu Wenhui's troops stationed in Dajianlu<sup>138</sup> in Xikang had to be supplied by Xichang Prefecture, so it was stored in Kailuochang. When the vanguard of the Red Army arrived in Kailuochang, Liu's men mistook these soldiers for the Nanjing Army and hastened to entertain the officers with a banquet. They were given over 4,000 sacks of

rice, each containing 30 kilogrammes. The leader of the Red Army later distributed the rice among the troops and gave the large surplus to the local people. When I reached Kailuochang, I saw all the people, old and young, happily carrying the sacks to their homes. I asked them what they thought of the Red Army. They replied: "We haven't had rice for a long time. Only after the Red Army arrived and gave us Liu's rice was this possible. The Red Army is great!" Liu Wenhui's troops had unintentionally supported the Red Army with the grain they had extorted from the people, but the Red Army distributed it again among the people. This is why the local people bitterly oppose Liu's troops and welcome the Red Army.

It was a 30-kilometre march from Kailuochang to Anshunchang, which is located on the bank of the Dadu River. The Political Department of the Red Army regarded Anshunchang as a "historic place of revolutionary significance." During the period of the Taiping Heavenly Kingdom (1851-1864), when the Northern King, Wei Changhui, killed the Eastern King, Yang Xiuqing, the Kingdom was split. The Yi King, Shi Dakai led his troops out of Nanjing towards Sichuan, but he was finally defeated and seized in Anshunchang. On the evening when we arrived at Anshunchang, I went to give Li Fuchun, the deputy director of the Political Department, medical treatment for his feet. When I came in, Li was entertaining an old man of over 90 years of age who was a teacher in a local primary school and who had witnessed the defeat of Shi Dakai's troops here. Li feasted the old man with meat and wine and asked him to relate to us what came to pass for Shi's troops. The old man recalled that, when they reached Anshunchang, Shi's troops numbered about 60,000 men and had a good many weapons and horses. But the upper reaches of the Yangtze River were flooding and torrents were rushing through the mountains, making it impossible for them to cross the river. The Dadu River was before them; the Qing troops on their right had destroyed the iron-chain bridge over the river; on their left stood steep cliffs; and the Yi people, whose numbers exceeded the present Yi population by a great deal, were blocking their retreat. Under these circumstances, Shi and his troops were besieged here for 47 days. Shi and his troops gave up any hope of success. Shi surrendered to the Qing troops. All his troops were taken as prisoners. The old man continued to relate that those long-haired men, who were not bandits, had declared they would "restore the Han people to power and drive out the non-Han peoples." He added that Shi Dakai's troops had been kind to the people and had observed discipline, but that "the Red Army did even better." What the old man said was true. Shi Dakai had not been able to cross the Dadu River and was defeated there. Later I read some newspapers in Shanghai and Sichuan from which I discovered that

Generalissimo Chiang cited the failure of Shi Dakai's troops as a sign that the Red Army too would be defeated at the river. But the Red Army crossed the Dadu River safely. No wonder the Red Army was so proud of their maneuver and regarded it as a historic military victory.

The Dadu River is at the upper reaches of the Yangtze River. It flows into the Minjiang River and then into the Yangtze. The Red Army reached the Dadu River at the end of May. The weather was warm and the snow on the mountains was thawing, causing the river to flow swiftly and to flood. The Dadu River was wider and swifter than the Jinsha River and its waves were grander. It took 50 minutes to cross to the opposite bank and return in a ferry; this required the assistance of at least eight ferrymen. To cross from the south bank, the ferry would be pulled about 60 metres up river and then had to manage a dash in the direction of the current to the north bank. In approaching the north bank, the ferrymen had to be very careful; because the ferry might strike a reef, which could destroy it. The local ferrymen who knew the route of the river were the only ones who were capable of piloting these boats. On returning to the south bank, similar maneuvers had to be utilized. That is why it took 50 minutes to ferry across the river and back.

The Red Army captured only two ferries upon reaching Anshunchang. A battalion of Liu Wenhui's soldiers had fortified themselves along the river on the north bank, opposite Anshunchang in an attempt to stop the Red Army from crossing the river. But how was it that these two ferries had been moored on the south bank instead of on the north bank? This was just a chance happening. Liu's battalion commander was stationed on the north bank, but his father-in-law lived in Anshunchang on the south bank. On the night that the Red Army reached Anshunchang, the commander was staying with his father-in-law and intended to ferry the family and all the local gentry and merchants to the north bank the next morning. Since he had been informed that the Red Army was still 30 kilometres away and would not arrive before the afternoon of the next day, the commander felt the situation to be safe and slept soundly with his lovely wife. To his astonishment, on that very night the Red Army had advanced with such incredible speed that it reached Anshunchang at midnight, and that is how the commander and the two ferries were captured.

Even, with the use of these two ferries, crossing the Dadu River was still problematic. Liu Wenhui's battalion was defending the river along the north bank, making it difficult for the ferries to approach the bank. Besides, there were no skilled ferrymen to ferry them across the river. Nevertheless, the Red Army eventually routed Liu's troops and crossed the Dadu River. The Red Army was very proud of this victory. As an onlooker, I felt that this victory

41.78 million *mu* in Jiangsu,  
32.82 million in Anhui,  
17.28 million in Hubei,  
10.79 million in Hunan,  
29.32 million in Henan,  
17.16 million in Shandong,  
5.47 million in Jiangxi and  
3.25 million in Zhejiang.

The total number of people affected was 52.71 million. In other words, devastated farmland in 1949 was about 30 million *mu* less than in 1931, and at least 12 million people fewer were affected.

Now let us look at the grain supplied to the stricken areas after the floods in 1931 and compare it with the amount the Central People's Government is preparing to send this year. In 1932, the year after the floods, a total of 2.24 million tons of grain was transported south of the Great Wall, including some imported from abroad and some brought from northeast China. This figure is important as a basis of comparison with the amount to be provided for relief this year, after the 1949 floods.

This year we are prepared to send to the affected areas 1.03 million tons of grain from northeast China, 200,000 tons from Sichuan Province and about 300,000 tons from places along the Zhejiang-Jiangxi and Guangzhou-Hankou railways. If necessary, more grain can be brought down from the Northeast, and we are also prepared to import some foreign grain, if we have to.

Taken together, the three amounts mentioned already approach the total provided for flooded areas in 1932. If northeast China sends more grain south and we meet no obstacle to importing grain from abroad, the difference between the two figures will be even smaller. So that is the comparison so far as relief is concerned. If we also take into account that last year the area of devastated farmland was about 30 million *mu* less than in 1931 and that over three million tons more grain was harvested, then the grain supply this year will be no worse than in 1932.

It should be noted that after twelve years of war, land yields throughout the country have dropped, thus reducing most people's stocks of grain. But we must also remember that, because of twelve years of inflation, most city residents have bought and stored grain as a hedge against currency depreciation. In addition, because of the poverty caused by long years of war, people's food consumption varies. When fine grain [rice and wheat] is expensive, people generally eat coarse grain [corn, sorghum, millet, etc.] and use more water to cook them.

To ensure adequate food supplies in all parts of the country, the government is redistributing grain. On the one hand, considerable quantities of public grain are being transported to communication lines by all possible means from places with surplus grain but poor communications. On the other hand, to reinforce the supplies of disaster areas and big cities, grain is being brought there from provinces where last year's harvest was good and where there is usually a surplus that is sold elsewhere. However, no more grain is being removed from these provinces than in previous years.

The cost of shipping grain is high: on average, it is equal to the price of the grain transported, and in some places it exceeds that price. Still, it is the people in the affected areas and the surplus rural labour force who provide the transportation service and receive the payment for it.

Grain shipments are not only necessary for the country as a whole but also beneficial to the peasants in areas with surplus grain. If public grain from areas of surplus were not shipped out to disaster areas and big cities but left there to be sold in competition with the local peasants' own grain, prices would fall sharply, thereby causing losses to the peasants. Furthermore, when there are grain shortages in the big cities, the cost of industrial goods necessarily increases. This creates problems not only for city residents but also for peasants in areas with surplus grain, who must exchange low-priced grain for high-priced manufactured goods.

The aim of the government in redistributing grain is to transfer surplus grain from remote areas to communication lines where it can be readily transported in response to any needs. Only when distribution is coordinated in this way can we meet the grain requirements of the whole country.

Large coastal cities like Shanghai, Tianjin and Guangzhou have long been dependent on grain imported from abroad. This year they will be supplied with domestic grain. Many people are worried that the coastal blockade may create shortages in the big cities. As we see it, except for a few ports that are now under a temporary blockade and may experience temporary grain shortages this year because they have exceptionally poor inland communication facilities, all the big cities, such as Beijing, Tianjin, Shanghai, Guangzhou, Wuhan and Nanjing, along with others, will receive thenecessary grain supplies.

The quantity of public grain alone to be sold on the market this year (including grain to be delivered after the wheat harvest, but excluding figures for northeast China) totals 4.5 million tons. The total urban population in China is less than 90 million. With these 4.5 million tons of grain, the government can supply about one-third of the total urban population with food for a whole year. It is unprecedented in the history of China for the

government to provide the cities with such huge quantities of grain.

Now I should like to say something about our efforts to provide relief to the people in disaster areas. There are 12 million *mu* of flooded land in Liaoxi and Rehe provinces in northeast China, affecting 2.6 million people, and the Northeast People's Government is now undertaking relief work in these areas.<sup>74</sup> For flooded areas south of the Great Wall, the Central People's Government has made the following allocations of grain to be used for different forms of relief:

- 170.200 tons of relief grain,
- 172,820 tons of grain to be paid to people working on water conservation projects,
- 47,400 tons of grain to be used as agricultural loans,
- 60.0 tons of grain to be invested as capital in cooperative undertakings,
- 100.0 tons of grain to be paid to people taking part in transport work,
- 63,175 tons of grain to be used for purchasing homespun cloth from inhabitants of devastated areas,
- 72,500 tons of coarse grain to be loaned to peasants for consumption and repaid after the wheat harvest, and
- an additional 80,000 tons of relief grain to be allocated by local governments.

The above eight items total about 766,000 tons. If necessary, this amount can even be increased, depending on circumstances.

According to the report of the Committee on Flood-Relief of the National Government that appeared in the *Economic Yearbook of China for 1932*, the comparable figures for that year were as follows:

- 160.200 tons of relief grain,
- 300.0 tons of grain to be paid for work on water conservation projects, and
- 50.0 tons of grain for agricultural loans and seed.

These items totalled 510,200 tons, but the same source reveals that of that amount, at least 150,000 tons never reached the devastated areas.

As mentioned above, the population in the disaster areas this year is at least 12 million less than in 1932. However, 255,800 tons more grain has been allocated for relief than in 1932, and all of it will be duly delivered. Furthermore, under the reactionary Kuomintang rule, corruption and embezzlement were commonplace in relief work, whereas that sort of thing is never tolerated by the people's government.

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In aiding the people in disaster areas, we focus on organizing them to help themselves. The relief grain allocated by the government is used to help them engage in various types of production. It is not distributed just to provide short-term relief. If we do our work well, we shall be able to help the flood victims overcome any possible food shortage this spring.

The inhabitants of the disaster areas are in great distress, and the people in general lead a hard life. These are the results of imperialist aggression and the reactionary rule of the Kuomintang. Precisely because of this, the people throughout the country, having defeated the Japanese imperialists, were determined to overthrow the reactionary Kuomintang regime swiftly and to establish their own government. Our victory in the people's War of Liberation and the formation of the Central People's Government and people's governments at all levels have created the prerequisites for rebuilding the national economy. The people understand this and are working with the government to eliminate remaining enemy forces, restore the economy and overcome all difficulties.

The imperialists are rejoicing at our misfortunes. The handful of reactionaries in island exile are also dreaming of a food crisis on the mainland. Let them dream. Spring rains have been reported in northeast and north China as well as in Henan and Shandong provinces (with the exception of the Jiaodong District in Shandong), and the wheat harvest is promising. Peasants throughout the country are beginning their spring ploughing. Those who rejoice at our distress and hope that we shall have a food crisis are doomed to disappointment. Contrary to their expectations, we shall not only overcome all our calamities, but also stabilize grain prices for the first time in years.

## MAINTAINING STABLE CURRENCY AND PRICES

*May 5, 1950*

Since prices were stabilized in March and April, currency circulation has slowed down substantially. The amount of currency withdrawn from circulation has likewise decreased (we have fulfilled only 40 per cent of the original plan for March and 20 per cent for April). However, bank deposits have increased considerably, so that they now total about 5,000 billion *yuan*,<sup>2</sup> of which 20 per cent is in personal savings accounts. Some of these bank deposits have been exchanged for U.S. dollars, but most of them have been loaned to state trading companies.

A main feature of monetary activity in March and April was that bank deposits played an important role in the government's financial and trade operations. So the increase in bank deposits is probably a good thing, but because of our lack of experience in these matters, we must be prepared for possible dangers and take precautions against them. For instance, if prices rise sharply, depositors will immediately withdraw their savings. Since their money has been loaned out or used to buy U.S. dollars, in order to satisfy the depositors' demand for cash, the People's Bank of China will be compelled to issue large quantities of bank notes. Such an increase in currency would lead to panic buying and would probably result in even greater price increases. To forestall these possibilities, we must consider some countermeasures and at the same time try hard to keep prices stable. It is not only the interests of the masses that are at stake but also the prestige of the Central People's Government.

Another reason why we must take precautions is that the new currency, RMB, has not yet gained widespread acceptance (even though peasants in north China now use RMB when they go to market) and that the majority of people still have no faith in price stability. After twelve years of inflation,<sup>39</sup> we cannot expect people to change their minds about it in just

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Report to the Central Committee and the greater administrative regions, drafted by Comrade Chen Yun on behalf of himself and Comrade Bo Yibo.<sup>38</sup>

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two or three months. To forestall trouble, we are going to adopt the following measures.

1. We shall store adequate supplies of cotton yarn and cloth. So far as stocks of commodities are concerned, we have plenty of public grain<sup>18</sup> on hand, because it is collected only once or twice a year. But cotton yarn and cloth are still a problem. True, we shall have enough of them for a year's consumption, but, unlike grain, they have to be produced month by month. This means that we can build up stocks only a little at a time from the surplus left over each month after consumer demand has been met. If we do not have large quantities in reserve, and there is a monetary and price storm with idle capital converging from all sides to buy up cotton yarn and cloth, we shall have no means of controlling the situation.

For this reason, we have decided to buy more cotton both at home and abroad and to commission privately owned mills in Shanghai to process it into yarn and cloth for us. In this way we hope to increase the stock of cotton yarn and cloth in a short period of time. The Ministry of Trade<sup>34</sup> and the Ministry of the Textile Industry now have on hand a total of 4 million bolts of cloth and 110,000 spindles of yarn, worth about ¥1,400 billion. Plans are being worked out to produce additional quantities of both yarn and cloth worth as much as, ¥2,000 billion to ¥2,500 billion. We shall calculate how much cotton we can buy and how much more yarn and cloth we shall order from the private textile mills and then inform the departments concerned in east China including Shanghai. These plans, if carried out successfully, will benefit not only the state but also both the capitalists and workers in private mills in Shanghai.

2. We shall expand the area of circulation of RMB. Although the new currency is gaining ever wider acceptance in certain areas, those areas are still quite limited. In fact, the total amount now in circulation in the markets—as opposed to that held in state banks—is only about ¥4,000 billion. In April most of the currency put into circulation through financial and trade channels was quickly converted to deposits in state banks. This indicates that RMB is not circulating very widely, being used mainly in some large and medium-sized cities. A further expansion of the circulation area is an important safeguard against major currency and price fluctuations.

We therefore ask leading Party and government comrades in all provinces of the new liberated areas to help state trading companies take steps to achieve such an expansion. The trading companies are to select a few important towns in different counties in which to establish state stores that will sell goods only for RMB and only at standard prices fixed by the companies. They should ask existing supply and marketing cooperatives and

certain private stores to follow the same policy. Only when there are such stores in many towns can we expect to expand the area of circulation of RMB and soon after to stabilize prices.

3. We shall take in more fixed-term bank deposits. Right now such deposits account for only one-seventh of the total. The general headquarters of the People's Bank of China is considering how to use interest rates and other means to attract more deposits for terms of two or three months or even longer. If we have a substantial amount of such deposits, we can expect less pressure from sharp currency and price fluctuations, because not too many depositors will be able to withdraw their savings at any one time. We believe that so long as we take measures to combat this problem, we can overcome it in one or two rounds of struggle.

4. If, in the event of violent fluctuations, the above measures prove ineffective, we shall have to take other steps as a last resort. We could delay issuing funds for government and military expenses for fifteen to twenty days. We could also restrict the amount of bank deposits that may be withdrawn by government organizations, state-owned enterprises and co-operatives, announcing a short-term freeze on most of them. (In this case, state-owned enterprises could ask their workers and other employees to wait two or three weeks for their wages.)

These last would be the most effective measures to achieve a short-term reduction in the amount of currency in circulation. But we shall resort to them only in an emergency and after due consideration of the importance and urgency of each. On no account will we use them without considering the circumstances. We are merely anticipating: judging from the present situation, there will be no crisis in the next couple of months, so there will be no need to take these steps. But we should like to remind comrades at both central and local levels that in the event of a crisis we may have to do so.

If we can correct certain wrong tendencies in tax collection, gradually eliminating embezzlement and tax evasion, maintain an approximate balance between revenue and expenditure, carry out the above measures and advance with great care, we can avert most potential dangers, even though we still have little experience in these matters.

We have tried to foresee possible difficulties that may result from a rise in prices and have considered some precautionary measures to be taken in this connection. But at the same time we must also guard against another possibility, that is, a sudden drop in prices, which can follow a long period of price stability. On May 8 there will be a conference of directors of municipal bureaus for industry and commerce, and shortly afterwards, a

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conference of directors of provincial bureaus for industry and commerce.<sup>75</sup> The purpose of these meetings is to study ways to readjust the relation between public and private interests. In the meantime, we are planning to place more orders for manufactured goods with privately owned factories, either supplying them with raw materials or not, and to issue a certain amount of currency especially for the purchase of farm produce from peasants and of cotton yarn and cloth from private mills in Shanghai.

Thanks to state purchases, the nationwide downward trend of prices has been arrested for the most part. However, if there is a bumper crop of wheat this year, the price of wheat will inevitably drop. In that case we could exchange certain quantities of coarse grain [corn, sorghum, millet, etc.] and articles of daily use for wheat. Another alternative would be to purchase a small quantity with cash so as to prevent the price from falling too low. Large quantities of wheat are expected to be available for sale, and in view of people's limited purchasing power, it will be hard to keep the price from dropping. Of course, the state could obtain all the wheat it needs by issuing a large amount of bank notes to purchase it. But that would result in an increase in idle capital, which would probably be used to buy cotton yarn and cloth rather than wheat. Therefore, an increase in bank notes for the purchase of wheat would bring about a corresponding decrease in the reserve of cotton yarn and cloth, thus creating a weak link in our economy. We must pay close attention to that possibility.

## COMBATting SLUGGISH SALES OF COMMODITIES

*May 25, 1950*

Industrialists and businessmen are now facing a major difficulty: sluggish sales of commodities. As a result, factories have shut down, shops have closed and unemployment is increasing. These phenomena are now quite common, not only in big cities like Shanghai and Tianjin but also in many small and medium-sized cities.

According to estimates made by the All-China Federation of Trade Unions, in March and April the number of unemployed throughout the country increased by 100,000: 50,000 in Shanghai, 25,000 in Wuhan and 14,000 in Tianjin. Actually, the number of newly unemployed exceeds these estimates. In the large cities there are now 380,000 to 400,000 people without jobs, and for the country as a whole the total has reached 1.17 million (including 125,000 in northeast China).

According to statistics reported during this meeting, from January to April this year 2,945 factories in 14 cities and 9,347 shops in 16 cities went out of business. Enterprises in big cities, especially in Shanghai, are experiencing more difficulties than those elsewhere, and industrial enterprises are having a harder time than commercial ones. Generally speaking, the larger a factory is, the more difficulties it is facing. If we consider the types of businesses affected, it is wholesale grain and cloth stores and shops dealing in high-grade consumer goods that are having the most trouble.

The chief factor contributing to the slow sale of commodities and to overproduction is the rapid disappearance of the false purchasing power created by twelve years of inflation.<sup>39</sup> Other factors include a decline in people's real purchasing power, the season of the year and the issuance of government bonds, but these are all of secondary importance.

Furthermore, for the past twelve years China has been carved up and

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Excerpt from a speech summing up a meeting of directors of the bureaus of industry and commerce of seven major cities.<sup>75</sup>

occupied by various forces, each of which set up factories to serve its own war effort. In the Northwest, for example, the KMT established flour mills to supply the needs of the several hundred thousand troops stationed there under the command of Hu Zongnan.<sup>76</sup> In the coastal cities during the War of Resistance, the Japanese invaders established many industrial enterprises to meet their own needs. In the liberated areas we ran our own factories as well: textile workshops with a total of 4,000 spindles in the Taihang Mountains, and match factories in Yan'an, for example. Now that the country is no longer divided into separate regions, certain industries have a surplus productive capacity. From the consumer's point of view, however, many manufactured goods are inadequate in terms of both quantity and quality.

Replacement of the old government with the new one has also brought about great changes in consumption. We now have 2.4 million government functionaries and 1.2 million army cadres, totalling 3.6 million persons. Their level of consumption is much lower than that of government employees under the KMT regime. For example, the amount of money that the mayor of Shanghai, Chen Yi, now has at his personal disposal each month is equivalent to only 25 kg. of millet<sup>42</sup>—a far cry from what the Kuomintang mayor, Wu Guozhen, used to have. Also, there are 10 million landlords, at least 2 million of whom used to spend lavishly on consumer goods and are now cutting back. Then, in the cities there are about 500,000 teachers in primary and middle schools and universities. The people engaged in speculation and profiteering number perhaps another 500,000.

All these categories add up to a total of 6.6 million. Let's assume that these people have lowered their living standard by an average of 150 kg. of millet per person per month. That means a total decrease in consumption of 99 million kg. of millet per month, or 11.5 to 12 billion kg. per year. The annual purchasing power of all city residents before liberation is estimated at an equivalent of 70 billion kg. of millet. Now it has decreased to a little more than 55 billion kg.—a drop of 20 per cent. This decline in purchasing power is a fact. It would be impossible to restore it to a normal level all at once. Indeed, in some cases that would not even be desirable.

The present period of sluggish commodity sales will soon come to an end, because there are no large stockpiles of goods. An estimated 500,000 spindles of cotton yarn are stored in warehouses throughout the country, but there is a demand for 1.2 to 1.5 million. Also, within the next couple of years purchasing power is expected to rise above this year's level.

The peasants' purchasing power will certainly increase. We don't have enough specific data to know by how much, but we have made the following

rough calculations: In old China the landlords owned about 40 per cent of the cultivated land; peasants, presumably, gave half their farm produce to the landlords as rent; the nation's annual grain output is 120 billion kg.; after the agrarian reform,<sup>64</sup> peasants will no longer have to pay rent and, except for public grain,<sup>18</sup> all farm produce will belong to them. According to these estimates, the total purchasing power of the peasants will increase by an equivalent of 14 billion kg. of millet. If agricultural production is raised by improvements in seed selection, the application of fertilizers and the construction of water conservancy projects, we can expect an additional increase equivalent of 17 billion kg. of millet. All these possible increases in the peasants' purchasing power add up to 31 billion kg. of millet, which is one and a half times more than the present figure of 20 billion. However, it will take time to reach this goal.

To tackle the problems in industry and commerce, we shall adopt the following measures.

1. Keep important industries operating. In east China, where the textile industry is of vital importance, the state is planning to help privately owned textile mills by providing them with raw materials and ordering finished goods from them.

The state will also help other private enterprises, such as those in the machine-building, rubber and paper industries, by placing orders for their products. The authorities of east China have decided that of the 1.62 million spindles of cotton yarn the state will order from private textile mills, 1.36 million will be ordered from enterprises in Shanghai. Meanwhile, state orders for machines, worth an equivalent of 450 million kg. of millet, will be sent to both public and private factories in different areas, including Xi'an, Chongqing and other cities. Not all the machines will be put in operation this year, but by placing the orders now, the state will keep the industry in operation. As for rubber products (rubber-soled shoes, for example), the Ministry of Trade<sup>34</sup> will prepare an overall plan and then ask the local authorities to assign specific production quotas to factories in their areas.

2. Encourage the sale of manufactured goods. We shall try to do this in two ways: 1) by buying more agricultural products from the peasants so as to raise their purchasing power, and 2) by ensuring preferential treatment and favourable conditions to facilitate the export of certain manufactured goods that for the time being cannot be sold abroad.

3. Encourage public and private enterprises to work together and make sure that both have sufficient capital to maintain production.

4. Help private factories to improve their management.

5. Provide unemployment relief, especially where it is most needed.

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The above measures will be carried out as a supplement to policies designed to achieve financial stability. What the government has to do is as tricky as transporting baskets of eggs; it cannot afford to spill any, because financial stability will benefit not only industrialists and merchants but also the great majority of the people.

We must let everyone know which industrial goods are now being overproduced or have reached the saturation point, so that nothing further will be invested in them.

## **READJUSTING THE RELATIONS BETWEEN PUBLIC AND PRIVATE SECTORS AND IMPROVING TAX COLLECTION**

*June 6, 1950*

First, I should like to discuss the readjustment of the relations between public and private sectors.

This is a question that Comrade Mao Zedong referred to as taking the five sectors of the economy as a whole and giving them overall consideration.<sup>77</sup> In other words, we must act in accordance with Article 26 of the Common Programme.<sup>78</sup> The provisions of Article 26 merit the attention of all cadres. Some non-Party persons know these provisions by heart, but some of our Party members have forgotten them. Now all cadres working in government financial and economic institutions have been issued copies of the Common Programme. They should become thoroughly familiar with it and use it as a guide.

Should we or should we not give due consideration to all five sectors of the economy? Of course we should, because private factories help increase production, and private shops promote the circulation of commodities. In this way, they both help reduce unemployment and therefore benefit the people. We now have under our control all the organs of state power and also the major factories, mines, railways and financial and trading institutions. This means we are now so powerful that the capitalists cannot afford to oppose us. (Of course, there have been many serious incidents of “friction”, especially this year.)<sup>79</sup> When Shanghai was liberated last year we were short of supplies, having only 10 million kg. of grain at our disposal in

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Excerpt from a speech delivered at the Third Plenary Session of the Seventh Central Committee of the Communist Party of China. At this session it was decided that Comrade Chen Yun participate in the work of the Secretariat of the CPC Central Committee when Comrade Ren Bishi was recuperating owing to illness. In October 1950 Comrade Chen Yun served as a member of the Secretariat of the CPC Central Committee.

the city. How much grain does the government have on hand in Shanghai today? Eight hundred and fifty million kg., or enough for a year and a half. So there is no need to worry about grain. As for cotton, we had only 500,000 kg. last year, but now we have much more.

Under these circumstances, it is imperative for us to work out an overall plan for all sectors of the economy, including not only ours, the state sector, but also the private sectors. Otherwise, the capitalists' enterprises will shut down, and workers and other employees who lose their jobs will hold it against us. If our plans cover only state enterprises and not the many private enterprises, we shall find it hard to draw up a national economic programme and carry it out. Only when all five sectors of the economy are given due consideration and allowed to play their part can we all work together to build New Democracy and then socialism. Each of the five sectors has a different role, with the state sector exercising leadership and supervising the others.

We must take a clear-cut stand against any wrongdoing by the capitalists that might harm the economy and the people, such as speculation and profiteering, manipulation of markets, tax evasion or sabotage. We should make our position clear to the capitalists and be on the watch for losses they may cause us. Generally speaking, capitalists are always seeking to advance their own interests and tend to make trouble. We don't have much experience in economic affairs, so we have to put up with their greed, but we should also learn from them. Last year, having found out that we planned to build ships, the capitalists in Shanghai started buying huge quantities of raw materials necessary for shipbuilding, which resulted in losses for the state. The capitalists are concerned solely with their own interests. When invited to our meetings, they make only such proposals as benefit them personally. This is something we have to bear in mind.

What measures should we adopt with regard to privately owned factories? One thing we should do is to place orders with them for manufactured goods, either supplying them with raw materials or not, with a view to systematically organizing their production and marketing. Twice a year we shall collect all the orders for goods placed by army units and government organs and assign them to appropriate factories in various localities. In our society production has always been unplanned. Now we are determined to plan production and to centralize as much as possible. Collecting and distributing orders for goods will not only help to eliminate anarchy but will also push the capitalists towards socialism. The work will be troublesome, but it has to be done.

In assigning orders for goods to public and private factories, we must see to it that the interests of both are taken into account and that each

receives an appropriate percentage of the orders. That is what I have to say about industry.

Now about public and private relations in the field of commerce. First, these include pricing policy. Our ability to maintain good, well co-ordinated relations with private merchants depends to a large extent on the way we handle pricing problems. For example, we must allow for an appropriate difference between wholesale and retail prices so that private merchants can make a profit. If the wholesale and retail prices for a certain commodity are the same—for example, fixed at 100,000 yuan<sup>2</sup>—private merchants will find it hard to stay in business. The primary task for our state-owned department stores is not to withdraw currency from circulation by selling more goods but to stabilize market prices.

Second, there must be a division of labour in purchasing farm and sideline products. Is it feasible for all these products to be purchased solely by the state? No, because that would take too long. Besides, we do not have enough warehouses. Furthermore, our country is vast, with widely scattered villages. Peasants are mainly engaged in small-scale production, and most agricultural products belong to individual households. So, the flow of goods between city and country should not be monopolized by the state trading companies. That would harm the interests of the peasants. (At this point, Comrade Mao Zedong spoke up, saying, “That would also be harmful both to the Communist Party and to the people’s government.”)

The peasants want us to set somewhat higher prices for their products. It would be hard to satisfy this demand. One reason is that in fixing selling prices, we have to take into consideration the consumers’ ability to pay. Take, for example, bananas—a delicious fruit from Guangdong Province. If you charge too high a price for them, not many people will buy them and they will spoil. Moreover, we must leave some profit to the merchants. So long as we solve these two problems, offering a reasonable price to the consumer and a certain amount of profit for the merchant, there will be a brisk market for many commodities. Many farm and sideline products are labour-intensive. Some peasants take their products to market in carts drawn by donkeys. If transportation is included in their production costs, the figure will be quite considerable. Of course, peasants need to feed their draught animals, whether or not they are engaged in a sideline occupation. The point is that by using animals for transportation, the peasants can earn more income and gain additional benefits.

Third, we must keep a tight rein on imports but relax control over exports. People should be allowed to sell all kinds of goods abroad, even if they are not expensive items. In this way we can gain some initiative.

The state bank should exercise leadership over the private banks. Private banks hold some small deposits, and we should find ways of using those funds. Gold and silver coins<sup>12</sup> are for the most part frozen. It would be better to put them back into circulation, but the timing will depend on the degree of stability of RMB. It seems unlikely that we can do it this year. We must wait until we have considerable financial resources and then gradually begin to purchase U.S. bank notes, gold, and silver coins, in that order. There is a substantial quantity of gold held in private hands—an estimated 156,250 kg. Even if we assume that the actual amount is only 46,875 kg., the total value will be equivalent to US\$ 100 million. The above shows that this year we can't afford to buy U.S. bank notes, gold and silver all at once.

Next, I want to talk about taxation, grain, government bonds and other problems.

There are many shortcomings in our work in all these areas. (Comrade Mao Zedong interrupted, saying, "Above all, there have been remarkable achievements.") What has caused the shortcomings as far as the comrades in leading financial and economic institutions are concerned? Partly political ignorance and partly professional incompetence. Some comrades in charge of taxation never studied carefully the question of whether the tax rates were beyond the people's ability to pay—in other words, whether they were within reasonable limits. Also, taxes should be levied on major commodities that are sold in large quantities, such as cotton yarn and cloth and tobacco, but not on all sorts of insignificant items. Because of thoughtlessness on the part of these comrades some ridiculous things have happened: for example, eggs for sale have had tax stamps affixed to them.

Tax collectors must have available a list of tax rates and a list of taxable items, but we have published only the first. Asked whether something is taxable or not, our comrades can't give a definite answer. After referring to the regulations, in which a category of goods subject to taxation often includes items vaguely described as "and so on and so forth", they have to impose taxes on almost everything. We haven't worked out methods and detailed rules for tax assessment and collection; all we do is shout at the tax collectors, "You should collect taxes!" We are complete novices in this area.

It is essential for cadres who deal with financial and economic matters to concern themselves with politics. Their heads full of figures all day long, preoccupied with financial problems, they have little time to consider other matters. We must remind them that if they do not have a mass viewpoint and a political viewpoint, they are liable to make mistakes. Comrade Mao Zedong has suggested that the agricultural tax be reduced a little this summer and autumn. As for tax rates, I should prefer not to increase them in the

next three to five years and even, in some cases, to lower them a little. Such policies are right and must be adopted. This is because, first, the Chinese people have suffered a great deal during the past twelve years of war.<sup>20</sup> Second, according to established tradition, when a new regime is inaugurated, it's supposed to mark the event by doing something nice for the people. (*Laughter*) The new state we have just inaugurated is unusual, entirely different from the empire of the Qing Dynasty, the rule of the northern warlords or the Chiang Kai-shek regime; all the more reason why it should do something good for the people.<sup>80</sup> Third, during the current readjustment of the national economy, there are many problems to be solved, such as unemployed workers and closed shops. Since readjustment will take time, we think it would be well to reduce tax rates for some commodities in the next few years.

Nevertheless, we estimate that next year's tax revenue will be no less than this year's, because production is returning to normal, we are taxing more items and there is less tax evasion. Steady growth in production will make it possible to increase annual state revenue. In an agricultural country like ours, even a few years of political and economic stability will greatly stimulate people's enthusiasm for production, thus ensuring increased income for the state.

Given the present state of revenue and expenditure, there are two constraints we need to remember. First, we shall have to cut way back on the administrative expenses of state organs. At present, military expenses account for more than 40 per cent of total expenditure and administrative expenses for 23 per cent. In addition, most of the reserve fund, accounting for 10 per cent of the total, is also used by military and government organizations. These three major items add up to three-fourths of total expenditure.

Second, in the next few years we cannot expect to invest large sums in industrial development, because we simply cannot afford to. In future, when state revenue has increased considerably and the number of administrative institutions has been reduced, we shall be able to do more in that regard. For the time being, however, industrial investment must be concentrated on key projects.

This year out of a planned total of 12.5 billion kg. of public grain,<sup>18</sup> we collected some 11 billion kg. Next year we shall probably collect 10 billion. This year's harvest is not promising, so if we place too heavy a tax burden on the peasants, they will complain. It would be better to impose a single agricultural tax with fixed quotas. That means that the tax on crops such as cotton, soybeans and millet would be assessed annually, and no further tax would be imposed that year, even if production proved to be greater than

anticipated.<sup>81</sup> Peasants should not have to pay taxes on the chickens and sheep they raise, nor on the few eggs they choose to sell. Such a tax system would encourage them to develop diversified production.

Industrial and commercial tax<sup>53</sup> is the most complicated. These include a 1 to 3 per cent sales tax and a 5 to 30 per cent income tax. There is also a 1.5 to 6 per cent rural transaction tax.<sup>82</sup> Yesterday the Indian ambassador asked me, "What is the highest tax rate in your country?" "Thirty per cent," I answered. He told me the maximum rate in his country was 80 per cent. A tax handbook has been issued, and I hope comrades will carry it in case people ask for an explanation of a particular regulation. Of course, the handbook will be revised, and there will be some changes and additions. Sales taxes are the most complex and troublesome. Since they are indirect taxes, it is hard to decide what the rates should be. We must keep to the stipulated tax rates and make sure the amounts collected correspond to those rates.

Tax collection is now a tremendous task, so we need a plan. Heretofore we have had no plan, and our collectors have been at a loss how to proceed. Is it necessary to make a rough estimate of the total amount of taxes to be collected? Yes, but to do that we must first estimate the volume of business and the average profit level. Investigation and study are needed to provide reliable data on which to base our estimates. It's better not to have too many taxable items and complicated procedures, so that we don't get bogged down in details and neglect more important things.

A campaign should be launched among tax collectors to improve their work style and correct undesirable tendencies. Ninety to 95 per cent of them are new recruits. There are also some embezzlers, but very few, because tax collectors know that if they are dismissed for embezzlement they will find it hard to make a living at anything else. Now each of them wears a government-issued uniform with a badge indicating the office where he works. This reminds him that his personal reputation and future are at stake and that once dismissed for corruption, he can never again be employed by the government. During the rectification campaign we must make it clear to tax collectors that they have been doing good and useful work but that there have been certain mistakes and that these must be corrected. In a word, we must help them cultivate a strong sense of responsibility towards their work.

This year we have issued one hundred million *fen* of government bonds,<sup>41</sup> which has done much to withdraw currency from circulation and stabilize prices. However, we issued too many and all at the same time, just when most taxes were being collected. It would have been better if we had staggered them. Judging from the current monetary situation, it is unwise to withdraw such large amounts of currency from circulation in a short period

of time. So there is no need to urge people to buy the remaining bonds, if they are reluctant to do so, and no more will be issued this year.

As an agricultural country, China must rely on agriculture as the major source of funds for investment in industry. Industrial development requires large sums, the greater part of which can come from nowhere else. This does not mean, however, that we can concentrate on industrial development to the neglect of agriculture, which now represents nearly 90 per cent of the national economy.

Should we export grain or cotton? That depends on the world market. If there is a greater demand for cotton, then peasants in north China should be encouraged to devote more acreage to cotton and those in other areas to produce more grain. This requires an overall, unified plan based on careful calculations. Unless we make a survey of potential markets beforehand, it will be difficult for us to find a ready market for our cotton.

In handling economic affairs we have to consider all factors and take an overall view. Right now we are placing our hopes mainly on grain and cotton production. Ever since the Qing Dynasty, China has purchased cotton, grain and oil from abroad. If we continue to use foreign exchange to buy those commodities, how can we purchase the machines we need for industrial development? So we must give first consideration to the production of cotton and grain.

Under present circumstances, investment in industry has to be concentrated on key projects. Right now, priority must be given to oil projects and, in future, to electric power projects, railway construction and so on. In planning industrial development, we have to take a strategic approach. We should carefully select locations for projects, taking into account the availability of necessary natural resources. It would be wrong to focus on one year's industrial development without at the same time making plans for the following year's. It would likewise be wrong to concentrate most of our efforts on industry one year and then on agriculture the next.

Conditions in northeast China are quite different from those south of the Great Wall. In northeast China, industrial production has been restored, because there are factories, machines, workers and capital. But that is not the case in areas south of the Great Wall. In those areas, building a new factory, including ordering and installing machines, generally takes quite a long time—three to five years. What would a factory built and put into operation within one year look like? Probably much like one of the cave dwellings in Yan'an. In most cases an industrial project cannot be expected to produce returns on investment in the year it is built. In matters of economic development, it is better every year to prepare for the next. We should draw

up plans to cover not only the present year's investment but the next year's as well, giving thought also to investment in the years to follow.

Various conferences are now being held to discuss such questions. We don't have enough statistical data. Last December, when the Budget Estimates were being prepared, we had only rough calculations to go on. What else could we refer to? In future, however, we shall probably be able to make our budgets more realistic.

## THE CURRENT ECONOMIC SITUATION AND MEASURES FOR READJUSTING INDUSTRY, COMMERCE AND TAXATION

*June 15, 1950*

Eight months have passed since the Central People's Government was established. During this period the Government Administration Council<sup>40</sup> and its Financial and Economic Commission<sup>7</sup> have done considerable economic and financial work, some aspects of which affect the entire country and the masses. In particular, we have done the following:

- Unified management and guidance of national financial and economic work;<sup>83</sup>
- Collected public grain<sup>18</sup> and taxes and issued government bonds to achieve a balance between revenue and expenditure and to stabilize currency and prices;
- Taken-over privately owned industrial, commercial and financial enterprises, reorganized them as state enterprises and enabled them to resume operation;
- Invested in transportation, water conservation, agriculture and certain industries;
- Readjusted relations between the public and private sectors and between labour and capital;
- Transported grain supplies to the big cities; and
- Allocated grain and funds for relief of people in disaster areas and unemployed workers.

Some of our work has already shown results; some is just beginning to do so. Our achievements have been made possible by the support and hard work of the masses, government personnel at all levels and democrats of

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Report delivered at the second meeting of the First National Committee of the Chinese People's Political Consultative Conference. It was published in *People's Daily* on June 19, 1950.

various circles throughout the country.

There are shortcomings in all our work, and mistakes have been made in some areas. These, however, are largely due to inexperience and a lack of proper understanding of the situation, and they are being corrected.

The tasks ahead of us are as follows:

— To consolidate and expand our achievements, review our experience and analyse the present economic situation;

— To urge our cadres to work conscientiously towards the gradual fulfillment of the financial and economic tasks laid down in the Common Programme;<sup>78</sup> and

— To do all we can to bring about a basic improvement in the financial and economic situation so as to realize the aspirations of the people.

My report to the second meeting of the National Committee will deal with three questions that are of concern to us all: the current economic situation, the readjustment of industry and commerce, and the readjustment of taxation.

## I. THE CURRENT ECONOMIC SITUATION

China's economy is at a historic turning point—the transformation, on a nationwide scale, of a semi-colonial, semi-feudal economy into an independent, new-democratic economy; the change from retrogressive, adverse conditions to progressive, favourable conditions.

The inflation and commercial speculation resulting from the long years of rule by the imperialists and the Kuomintang reactionaries are the retrogressive, adverse conditions.

Unless we change these conditions, we cannot stabilize the economy and the market and set production and distribution on the right track. Eliminating inflation and speculation is therefore the starting point for the establishment of the new-democratic economic order and the transformation of the national economy.

We can now say that we are beginning to succeed in this area, though of course we should not be complacent on that account. Greater undertakings are awaiting us, including many important economic tasks. We still have to overcome all the disasters caused by the rule of the imperialists and Kuomintang reactionaries. The wounds of war still have to be healed, and the people still face many difficulties. Moreover, we have experience in economic

work and must learn as we go.

It should be recognized, however, that we have already achieved some successes. Economic and financial work has been unified, state revenue and expenditure are approaching equilibrium, and our currency and prices are becoming more stable. There is no doubt that we have done good work in these areas, and thanks to our successes the economic situation is beginning to improve.

The masses have begun to feel the benefits of stable currency and prices. And quite a number of farsighted, patriotic national capitalists have come to realize that such stability will be beneficial to their businesses as well.

At present, industry and commerce are beset by difficulties. First, control of inflation and stabilization of prices have put a stop to the panic buying of the recent past and revealed that the high demand was abnormal. That is to say, during the past decade or more of inflation,<sup>43</sup> instead of holding on to their paper money, people chose to buy and hoard goods, not for consumption but as a hedge against the depreciation of currency. Now things are different. People have not only stopped hoarding but are dumping their hoarded goods on the market. As a result, for certain commodities supply temporarily exceeds demand. Business is bad and many industrialists and merchants are experiencing difficulties. But this situation will not last long. When the hoarded goods have all been sold, supply and demand will return to normal.

Second, because imperialism, feudalism and bureaucrat capitalism have been eliminated in China, certain industrial and commercial enterprises that developed in conformity with a colonial and semi-colonial economy have lost their markets. Also, many of the goods produced are substandard. Consequently, certain sections of industry and commerce have closed down, and workers have lost their jobs and need to be given relief or to find other work.

Third, because of overstaffing, irrational methods of operation, high costs and low profits or even losses, many privately owned factories and stores are losing business or being forced to close down. Changes will have to be made if these firms are to find a way out.

Fourth, there is no planning—only meaningless competition among enterprises in the same trade—and no coordination, so that supply in one place cannot meet demand in another. Thus, many enterprises have been obliged to reduce production or to cease operation either temporarily or permanently. Moreover, the long years of war and the great decline in people's purchasing power have caused a slump in industry and commerce. That is clear for all to see.

All these problems are left over by history. They are acute now because

the longstanding semi-colonial, semi-feudal economy has undergone radical changes. Although these changes bring some suffering with them, they are not bad in themselves. They will usher in a new life, reconstruction, prosperity and a healthy new-democratic economy.

These changes are the result of the great people's revolution, which overthrew the reactionary regime of imperialism, feudalism and bureaucrat capitalism and destroyed the economic order of that regime. In the words of Chairman Mao Zedong, "There have been reorganizations of varying degrees in the whole of the old economic structure."<sup>84</sup> These, then, are the changes now taking place. True, they cause hardships and difficulties, but they are hardships and difficulties arising from the transition to a new life and to reconstruction and prosperity, and for the most part they are only temporary.

Chairman Mao Zedong has analysed the situation and pointed out that hardships and difficulties are present only in the new liberated areas, whereas in the old liberated areas such problems have already been, or are being, solved. He has listed three conditions for solving these problems: 1) completion of agrarian reform;<sup>64</sup> 2) proper readjustment of existing industry and commerce; and 3) large-scale retrenchment in government expenditures.<sup>85</sup> We can fulfil these conditions throughout the country in about three years. There is no reason to be pessimistic about the economy. This is our brief analysis of the current economic situation in China.

## II. READJUSTMENT OF INDUSTRY AND COMMERCE

This involves regulating many different kinds of relations. These include the relations between the public and private sectors of the economy, between different public enterprises, between different private enterprises, between financial enterprises on the one hand and industrial and commercial ones on the other, between city and countryside, between different parts of the country, between imports and exports, and within individual enterprises. Here, I am going to speak mainly about some policies and measures that the government should adopt to readjust relations between the public and private sectors.

As you know, the people's government protects national industry and commerce. The Common Programme recognizes the existence and development of all private capitalist economic undertakings that benefit, but do not control, the national economy and the people's living standards.

In China, which is industrially backward, for a long time to come it will be progressive and beneficial to the country and the people to have national capitalists invest in industry and develop it.

Although commercial capital is overexpanded in big cities, China is a vast country with a preponderance of scattered small producers; the existence of private merchants is, therefore, inevitable. The state allows private capitalists to engage in commerce so as to facilitate the exchange of commodities. This is to the advantage of both the country and the people. The people's government protects the interests of all capitalists whose undertakings are good for the economy and help raise the people's living standards, but it opposes the disruptive activities of speculators. The state sector is the dominant force in the economy.

These principles are our point of departure for the readjustment of relations between the public and private sectors.

The basic policy of the people's government concerning relations between the public and private sectors is clearly defined in Article 26 of the Common Programme. According to that article, "The state shall co-ordinate and regulate state-owned economy, co-operative economy, the individual economy of peasants and handicraftsmen, private capitalist economy and state capitalist economy, in their spheres of operations, supply of raw materials, marketing, labour conditions, technical equipment, policies of public and general finance, etc. In this way all components of the social economy can, under the leadership of the state-owned economy, carry out division and co-ordination of labour and play their respective parts in promoting the development of the social economy as a whole."

From this we can see that by relations between the public and private sectors we mean relations among the five sectors of the economy. Today I am not going to speak about all the questions concerning these relations, but only about certain ones that can and must be settled now.

We believe that the people's government should take the following measures to harmonize the public and private sectors and to minimize the difficulties that may arise at this historic turning point for our economy.

*A. In the area of industry.*

1. Whenever possible, the government and state-owned enterprises should place orders for manufactured goods with private factories, either supplying them with raw materials or not. The Central Financial and Economic Commission should centralize the orders placed by the various state enterprises, government departments and army units. It hopes to allocate these orders to both public and private factories once every six months. Contracts should be signed so that the factories can plan their

production.

2. The government should purchase more farm products to expand the domestic demand for manufactured goods and make it easier to export such goods so as to expand the foreign markets for them.

3. The government should encourage public and private enterprises to work together and it should make sure that both have sufficient capital to maintain production.

4. It should call on private enterprises to improve their management methods and their relations with labour, so that joint efforts can be made to overcome their difficulties.

5. It should take steps to unify and regulate the scattered productive enterprises belonging to government departments, army units and mass organizations. They will thus complement private enterprises, the handicrafts industry and the peasants' sideline production, rather than conflicting with them.

6. It should periodically inform the public which types of manufactured goods are being overproduced or are reaching the saturation point, so as to minimize the harmful effects of unwise investment.

7. It should undertake unemployment relief by organizing as many of the unemployed as possible to participate in key public projects in such areas as water conservancy and urban reconstruction.

*B. In the area of commerce:*

1. Article 37 of the Common Programme stipulates that "state-owned trading organizations [companies] shall assume the responsibility of adjusting supply and demand, stabilizing commodity prices and assisting the people's cooperatives." This requires that the government alter its price policies from time to time in light of changing economic conditions—that is, that it maintain an appropriate differential between wholesale and retail prices and between prices in various areas. The differential must be such as to offer appropriate profits to retailers and merchants in remote places, thus stimulating trade and facilitating the recovery and expansion of production.

2. Retail stores of all sizes set up by state trading companies should be restricted to a number sufficient to stabilize retail prices and keep speculators from disrupting the market. They should be allowed to sell only six kinds of daily necessities: grain, coal, cotton yarn and cloth, cooking oil, salt and kerosene. As for state wholesale companies, their function will be to withdraw currency from circulation and stabilize wholesale prices.

3. It is essential to the people's wellbeing that there be a market for farm products and that they be sold quickly. State trading companies purchase only the major crops, some other farm products for export and some

important sideline products. The government should encourage cooperatives and private merchants to buy the remainder.

4. To protect the legitimate interests of the peasants, the government should maintain appropriate prices for farm products. For the same purpose, it should ensure a wider market for such products by allowing persons who provide transportation and retail marketing to make due profits.

5. To facilitate the flow of goods between town and country, which will benefit residents of both, local people's governments should simplify the formalities for private merchants who provide marketing and transportation. They should also consider the interests of private merchants when formulating tax policies and procedures.

*C. In the area of banking:*

State banks should continue to work with private banks to grant loans and gradually expand banking business.

*D. In organizing industry and commerce:*

To help readjust relations between public and private enterprises, the government should encourage them to establish trade associations<sup>86</sup> and federations of industry and commerce,<sup>87</sup> which will meet from time to time to discuss issues of mutual concern.

Some of these measures have already been put into effect, and others will be soon. The first measure concerning industry—that the government and state-owned enterprises will place orders with private factories—is the most important one, both for the national economy and for private industry. *We think that in implementing it, we should observe two principles:*

First, the price the government or the state enterprise pays for manufactured goods, whether or not it supplies raw materials, must include the costs of production. These costs should not be calculated on the basis of the technical level of the particular factory in question, but on the basis of the level of the average factory in the same area under reasonable management. The same price should be offered to state-owned factories.

If, however, the order is placed not to meet the needs of the government or the state-owned enterprise but simply to keep a private factory from closing down, the price should be lower, so as to reduce the burden on the state. In any case, all prices and terms of delivery should be agreed upon by both parties and all contracts signed voluntarily.

Second, to make sure that orders placed by the government or by state enterprises are properly distributed among the various public and private factories, all such orders should be handled by the industrial and commercial bureaus of the local people's governments. All local federations of industry and commerce and of trade unions, trade associations, and industrial trade

unions should help make sure that contracts are fulfilled in terms of quantity and quality of goods and that deliveries and payments are made on time.

We believe that if the measures I have described are put into effect, they will help tide industrialists and merchants over this difficult period.

In addition, it has been proposed that the government draw up regulations for investment and a law governing companies. We believe that these are necessary, and they are now being drafted.

This is all I wish to say on the question of readjusting relations between the public and private sectors.

### III. READJUSTMENT OF TAXATION

After our financial and economic work was unified throughout the country last March, a new situation arose in which national revenue and expenditure were approaching equilibrium. Because in March, April and May the state budget was nearly balanced, showing only a small deficit, and very few additional bank notes were issued, currency and prices were stabilized.

However, we made a number of mistakes in collecting public grain and industrial and commercial tax<sup>53</sup> and in issuing government bonds. The people have already expressed their resentment of these mistakes, and we must correct them. For example, when we collected public grain in the countryside, certain geographical areas and certain sections of the population were taxed too much and others too little.

When we collected cash taxes in the cities, there were similar cases of overtaxing and undertaxing, as well as instances of tax evasion and simple failure to collect taxes. Also, there were too many categories of things to be taxed, some overlapping, others not clearly defined. Methods of calculating taxes were not standardized, and many procedures were unduly complicated. It is the higher authorities—that is, the departments in charge of financial and economic affairs—who were mainly responsible for these mistakes, and the tax collectors themselves should not be blamed.

Generally speaking, the tax collectors of the people's government are conscientious workers. They are charged with collecting all the taxes necessary to meet the needs of the state, and this difficult task could never be accomplished without them. They did it simply to fulfil their duties, not to get credit for themselves. But there are some shortcomings and mistakes. Cadres from the old liberated areas who are sent to do this work in the new liberated areas are unfamiliar with the place and the people. They are

inexperienced at first they don't know much about the local situation, and sometimes they are too rigid. Most of our tax collectors used to work for the old regime and were kept on after liberation. Many of them do their work honestly and conscientiously, but some still follow the bad old ways, and a few have become corrupt. That's because we have not educated sufficiently. Once we have educated them and helped them rectify their work style, these tendencies will surely disappear.

The extensive experience we have gained now guarantees that our future work in taxation will be successful. With regard to tax policy, Article 40 of the Common Programme stipulates, "The tax policy of the state shall be based on the principle of ensuring supplies for the revolutionary war and taking into account the rehabilitation and development of production and the requirements of national construction. The tax system shall be simplified and equitable distribution of burden effected." To conform with these stipulations, the people's government should do the following.

*A. Regarding agricultural taxes:*

1. It should impose taxes only on principal farm products. It should not collect any miscellaneous taxes that hinder the development of agriculture, rural sideline production and livestock breeding.

2. In view of the current economic situation in the countryside, it should reduce agricultural taxes so as to encourage the peasants to produce more. Taxes must be collected in accordance with fixed rates, neither more nor less.

3. Tax rates should be fixed on the basis of normal yields. If, thanks to the hard work of the peasants, the yield is greater than normal, the excess portion should be tax-exempt. This will provide a further incentive to production.

4. It should fix a reasonable point below which no transaction tax<sup>82</sup> is imposed. Only sales involving relatively large quantities of goods should be taxed, not small transactions between peasants.

*B. Regarding industrial and commercial taxes:*

1. It should continue the policy of taxing industry more lightly than commerce and everyday necessities more lightly than luxury goods.

2. It should not allow the amount of taxes collected to exceed the prescribed rates.

3. It should simplify the list of taxable items. More than two hundred items are to be eliminated and some two hundred others consolidated. (For example, various kinds of cotton goods will be taxed only once, by means of a uniform tax on cotton yarn. Woollen goods will be taxed in the same way, with a single, uniform tax on wool yarn.) Altogether about five hundred items will be eliminated from the list.

4. In the interest of the vast numbers of consumers, it should reduce the salt tax.

5. It should standardize the methods of valuation and tax assessment, making sure that they are interpreted uniformly everywhere in light of actual conditions.

6. In view of uneven levels of development and of accounting in different places, it should use three different ways to determine the amount of taxes enterprises are to pay according to the specified tax rates: 1) Enterprises that keep orderly accounts and provide receipts for transactions can submit them to the tax collectors, who will audit their accounts and determine the amount of tax due. 2) When enterprises are not up to that standard of accounting, their representatives can meet with the tax collectors and determine through democratic discussion the amount of tax to be paid by each. 3) For small enterprises in cities and small towns for which the first two methods are inappropriate, a fixed amount to be paid at regular intervals can be assessed.

7. It should see to it that in every large city a tax supervisory committee is established, consisting of representatives of the tax bureau, the bureau of industry and commerce and the federation of industry and commerce. This committee should be empowered to examine matters relating to tax amounts and penalties.

*C. Regarding tax collectors:*

It should strengthen the education of tax collectors to ensure that they have a correct understanding of policies, regulations and procedures and a good work style. They should be taught to follow policy strictly, cooperate with the people and avoid causing popular discontent by becoming bureaucratic or authoritarian. They should be encouraged to prevent tax evasion and to work honestly and devotedly. The government should try to do good work in this area in the coming summer, autumn and winter.

These are my views on the economic situation, the readjustment of industry and commerce, and the readjustment of taxation. I hope you will examine them and see if they are correct.

In the last three months the Ministry of Labour has convened a conference of directors of provincial and municipal labour bureaus, the Central Financial and Economic Commission has held a meeting of directors of the bureaus for industry and commerce in big cities,<sup>75</sup> and the Ministry of Finance, a conference of directors of big-city tax bureaus. At these conferences questions concerning the relations between labour and capital, the readjustment of industry and commerce, and the readjustment of taxation were discussed in detail.

The meetings were attended by representatives of private industry and commerce. For the most part, the views and conclusions included in my report are those agreed upon at these conferences.

Our state and our people are still beset by difficulties. To fulfil our economic and financial tasks, we urge all military and government personnel, school teachers, workers and other employees to behave responsibly and try to save money wherever possible. We hope that the government and military organizations will make appropriate adjustments in their personnel and that all those who are ordered to move to other regions will take up their new posts readily so as to minimize waste of manpower and financial resources. State-owned enterprises are expected to take careful inventory of stocks in their warehouses, improve management and do all they can to increase state revenue.

At the same time, we hope that industrialists and businessmen throughout the country will not seek to evade their taxes but pay them voluntarily in accordance with the regulations. We ask the trade unions, federations of industry and commerce, trade associations, and all workers and other employees to assist the tax collectors in their task.

Our goal is to rehabilitate and develop the people's economy and, at the same time, to gradually eliminate the state budget deficit. We believe that this goal can be attained and that boundless prospects will open for our country, so long as the government and the people work together.

**OUR FINANCIAL AND ECONOMIC POLICIES IN  
LIGHT OF THE WAR TO RESIST U.S.  
AGGRESSION AND AID KOREA<sup>88</sup>**

I

*November 15, 1950*

This conference has to consider three questions: first, financial and economic policies for next year; second, the budget estimates for next year; and third, some specific financial and economic matters. These last include the supply and marketing of cotton yarn and cloth, the purchase of farm products and local specialties, the adjustment of price discrepancies between industrial and agricultural products, the establishment of a financial system and financial and economic rules, and the formulation of plans for trade.

Today I should like to talk about the first question, that is, next year's financial and economic policies. But first of all we must understand clearly that this question is closely related to our political guidelines for financial and economic work. Now I want to discuss a number of topics.

**THE BASIS FOR NEXT YEAR'S  
FINANCIAL AND ECONOMIC POLICIES**

The U.S. imperialists are escalating their war of aggression against Korea, and we anticipate that the current situation may develop in three possible ways. First, the war in this neighbouring country may not affect our internal peace and security. Second, although the war is being fought on the other side of the border, our country may be bombed by enemy planes. Third, as

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I. Report made during the Second National Conference on Financial Work. II. Speech delivered at the end of the conference.

a consequence of the war, enemy forces may try to land at our seaports, thus engulfing the whole country in war.

Right now the countermeasures we are taking are based on the second possibility. Whether enemy air raids come sooner or later, and whether the scale is large or small, the situation will be more or less the same. If the first possibility is realized, it will be easy for us to deal with the situation. If the third should come to pass, we shall have to reconsider our financial and economic measures. At the moment, however, it is appropriate to base our policies on the second possibility. That will not prevent us from taking different measures in the event of the third possibility.

In short, next year's financial and economic policies should be based on the War to Resist U.S. Aggression and Aid Korea. That means that there will be an essential difference between this year's policies, which are based on peaceful recovery of the economy, and next year's, which will call for an increase in military and related expenditures and a corresponding decrease in state revenues. This increase and decrease will be the major characteristic of the financial policies designed for the second possibility.

### ARRANGING EXPENDITURES IN ORDER OF PRIORITY

There is no question that the war takes precedence over everything else. All other work must be subordinate to it, and all our efforts must be bent towards victory. Without victory, we can accomplish nothing. Now the argument is over which tasks should be considered our second and third priorities. There has never been—and could not have been—such a controversy before. In my opinion, our second priority must be to maintain a stable market and keep monetary value and commodity prices from fluctuating; our third should be to invest in economic and cultural development.

Why should we make it our second priority to maintain a stable market, and even choose to cut expenditures for economic and cultural projects in order to do so? Because political and economic conditions have changed since the time when we were in Yan'an, the Taihang Mountains, Fuping, Harbin and Zhangjiakou.<sup>89</sup> In the days when we were in Yan'an, most of us were operating in the countryside, there were only some small cities under our control, and public grain<sup>18</sup> was the main source of revenue. Most of our expenditures were for the maintenance of troops and cadres under the supply system.<sup>90</sup> At that time, small-scale farming and individual handicraft indus-

tries, both of which were widely scattered and mainly self-sufficient, constituted the major part of our economy. Under such circumstances, the market and prices had little impact on production and on people's lives. Even when prices fluctuated in the cities, repercussions seldom extended to the rural areas.

In the Harbin days, although we occupied big cities, restoring the economy was out of the question, because all our financial resources were going to the war effort and they were still not enough to meet the need. This left us nothing with which to stabilize the market and prices. Fortunately, since there were not many wage-earners in the cities, the instability of the market and prices was not a major issue. With our limited financial resources, we could barely maintain railway and highway transportation, let alone undertake other projects.

But things are different now. All the cities—large, medium-sized and small—are under our control, and transportation networks have been restored throughout the country. In addition, we have unified management of financial and economic affairs nationwide and laid the groundwork for economic development in the cities. For six months now, prices have remained stable, and that has helped promote political and economic progress. So now we have good reason to consider carefully all factors that may affect the stability of the market and prices.

We must also remember that our economic foundation is still weak, and we have a very limited stock of goods. So, if the enemy launches air raids, prices could be destabilized at any moment. Without enough goods in our hands, it will be hard for us to keep prices from soaring, and that will damage our political and military endeavours. If the enemy becomes aware of this weakness, he will take advantage of it to bully us. Moreover, any rise in prices will lead to a decrease in tax revenue and a reduction of income for state-owned enterprises. As a result, the government will be forced to issue more currency. And even if we issue currency to the tune of 100 billion yuan,<sup>2</sup> it will not be worth the equivalent of 50 million kg. of millet,<sup>42</sup> and we shall therefore have to issue even more.

Last year price fluctuations<sup>56</sup> caused losses to the urban population, hampered the flow of goods between town and country, and obstructed some financial, banking and trade operations. However, since last March, when we unified the financial system, revenue and expenditure have been nearly in balance, monetary value has been stabilized and industry and commerce have been readjusted. Furthermore, this autumn the peasants reaped a good harvest, and that has increased their purchasing power. During September and October the market in the cities was brisk and industry and commerce

began to flourish, contributing to an increase in tax revenue. Now currency value, the market and prices have become stable. Many workers no longer have to rely on social welfare funds. Even industrialists and merchants are once again shouting, “Long live Chairman Mao!” This shows that the masses and the majority of industrialists and merchants are eager for a stable market and stable prices.

Thanks to our efforts earlier this year to unify financial and economic work<sup>83</sup> and then to readjust industry and commerce,<sup>73</sup> the country’s economy has taken an initial turn for the better. This indicates that if, having achieved political unity, a country wants to solve its financial and economic problems, it must do everything possible to stabilize the market and prices—this is of vital importance. Accordingly, we should try to maintain a balance between revenue and expenditure by reducing or even eliminating financial deficits, rather than by issuing more currency. That is the only way to keep the market and prices stable.

Is it possible to do that during wartime? We are not sure. Even if we are able to achieve a balance between revenue and expenditure and to stabilize the value of the currency, the supply and transportation of goods may pose problems that will affect the market and prices. In wartime, when production falls short of demand and transportation is disrupted, problems can easily arise. Still, so long as the budget is balanced and the currency stable, we shall have sufficient means to keep the market and prices stable. If, however, we are unable to stabilize the currency and cannot supply enough goods, prices will shoot up uncontrollably.

We must therefore do all we can to prevent any financial factors from contributing to price fluctuations. In other words, when we draw up our budget estimates, we should try to eliminate deficits by providing for more revenue and less expenditure. Except in the case of urgent military needs, deficits must be reduced. Strictly speaking, no deficits should be allowed unless we are in serious straits. If we don’t have sufficient funds for a project, it should be postponed or cancelled. When there is a deficit, we may be able to obtain some foreign loans, but not enough to solve the problem. We can issue government bonds, but we tried that in the first half of this year; they didn’t bring in large amounts either, and industrialists and merchants complained about having to buy them. So we had no choice but to issue bank notes. But issuing large amounts of bank notes in wartime is very risky, because it leads to immediate inflation. Therefore, a better way to improve our financial and economic situation is to cut back on expenditure and collect all possible revenue.

We consider expenditures for investment to be third in importance. This

means that only after we have provided necessary funds for our first two priorities can we use any surplus to invest in economic and cultural development. Our goal is to avoid deficits. But suppose that military spending makes it impossible for us to keep the market and prices stable. If that happens, we can't help it, because the war has to come first. In short, we must accomplish our tasks in order of priority. We can't just do whatever we like.

Expenditures must be ranked in order of importance. Otherwise, we can accomplish nothing. We have to concentrate our financial resources to solve major problems, just as we used to concentrate our troops to fight successful battles. At the Conference on Financial Work held in February of this year,<sup>49</sup> we worked out a budget that allowed for a huge deficit. Afterwards we were determined to minimize the deficit; we succeeded by overcoming all sorts of difficulties, and no one died of hunger. Not long ago we decided to freeze bank deposits of all state-owned enterprises. That too involved many difficulties, but we were determined to do it and we did. Our country is still confronted with many difficulties. Although we have been working for the revolution for more than twenty years, we still have to endure hardships for a while longer. As for the peasants, they will have to bear a somewhat heavier burden than before. This is what the current situation requires of us.

At this point I should like to say something more about what it means to give first priority to the war effort. In the past, the chief function of many comrades who assumed responsibility for Party affairs or government work in the localities was to provide logistical support for the combatants. The role of a Party secretary was not very different from that of an army officer in charge of logistics. So it would be to say that senior cadres do not recognize the need to give the war effort first priority.

The reason we must now remind them to put the war effort first is that some of them don't pay enough attention to it. From the financial point of view, giving top priority to the war effort means that our budgets should be designed to meet military needs to the fullest extent possible. But that doesn't provide an excuse for comrades in the army's logistics departments to squander the resources at their disposal. It is not enough for them simply to submit reports on the way supplies have been used. They have to decide carefully what quantities of supplies should be used for what purposes and at what time. So while we should put the war effort above everything else, the funds for it must be spent according to a plan. In that way, we shall be able to meet the military needs.

Very often the financial department is unable to provide the full sum requested or to provide it at the desired time. This is normal and only

represents a contradiction between the whole and the part. In the final analysis, the latter must be subordinate to the former.

### CURTAILING INVESTMENT IN ECONOMIC AND CULTURAL PROJECTS

So far as economic construction is concerned, our principle should be to invest as much as necessary in those projects that are directly associated with the production of military supplies, that will directly contribute to state revenue, or that will help in large measure to stabilize the market. Investment for other purposes must be reduced.

We have long years ahead of us, so it doesn't matter if we postpone some economic projects for a while. Besides, we have no choice, because it is the U.S. imperialists who have imposed war on us, obstructing our economic development. When a country is at war, it cannot afford a budget that gives equal importance to the war effort and to economic development. So for the time being it is better for us to undertake only projects of immediate importance, like those that directly serve military purposes. We shall not be able to concentrate on economic development until after the war. In the meantime, however, we can make preparations for it by surveying our natural resources and training our cadres.

Will some people be unhappy about our policy of postponing economic development for a time? Perhaps, but we cannot invest in projects simply to make people happy. That would directly conflict with the goals of our economic development.

We shall have to make drastic cuts in the operating expenses of all cultural and educational institutions, public health and public utility departments, and even military and government units. All comrades responsible for economic projects should understand what a given investment really means. Take, for example, an investment that is the equivalent of 50 million kg. of millet. What does it mean? It means an investment of some 70,000 taels of gold, or five million silver dollars.<sup>12</sup> Then, what is the real value of ¥100 million in RMB? In prewar years that sum might have been equal to about 5,000 silver dollars or 70 taels of gold. When celebrating Lunar New Year, peasants used to dream of having 10,000 taels of gold. Actually, that would be the equivalent of only seven million kg. of millet.

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## INCREASING REVENUE

To balance the budget we must tap every possible source of revenue, including local governments. Next year all local governments will be required to turn over to the central government a portion of their grain surtax and part of the profits of enterprises owned by them. In addition, they themselves should provide for the expenses for expanding local armed forces. We must also ask the peasants for financial assistance.

In our united front there are four classes—the workers, the peasantry, the petty bourgeoisie and the national bourgeoisie. The workers are still poor. The intellectuals cannot tighten their belts any more. The national bourgeoisie do not have much money to spare, because in the first half of this year they bought government bonds worth the equivalent of one billion kg. of millet.

On the other hand, the peasants, who constitute the majority of the population, have benefited from the agrarian reform<sup>64</sup> or from the reduction of land rents. Although their living standard remains somewhat lower than the workers', if the government buys their farm products and local specialties, their purchasing power will increase. Right now peasants in northeast China suffer less from the price discrepancies between industrial and agricultural products than in previous years. In the past, one ton of grain could be exchanged for only 0.8 bolt of cloth; later, it could purchase two bolts; early this year, 2.8 bolts; and recently, 2.5 bolts. Grain now brings a much higher price in areas south of the Great Wall than in the Northeast. In Tianjin, for example, one ton of grain can be exchanged for as much as six bolts of cloth. This indicates that we can count on the peasants for more revenue.

Local governments at all levels, especially offices in charge of tax collection, must tighten control over taxation. In the localities, from 15 to 30 per cent of taxes due are never paid. This is no exaggeration. A survey conducted in the city of Hankou shows that 30 per cent of anticipated receipts are lost every month because of tax evasion. So we must try to close this loophole. If we succeed we shall obtain a huge amount of additional revenue. To this end, we should improve the work in tax offices and the quality of tax collectors.

The government must monopolize the purchase and marketing of certain staple goods, such as cotton yarn and cloth. If we allow capitalists a certain amount of profit and fix reasonable prices for our purchase and sale of goods according to supply and demand, we can introduce a sales tax on cotton yarn.<sup>91</sup> This should bring the government a sizable income.

## II

*November 27, 1950*

The financial and economic policies for next year that we have discussed and adopted at this conference have been approved by the Central People's Government. In carrying out these policies, we must always bear two considerations in mind. First, is it too great a burden for the peasants to turn over to the government several billion additional kg. of public grain? Second, is it possible to give priority to national defence and at the same time to keep the market and currency value stable?

Let me address the first question. During this conference, we have adopted some measures to increase revenue. These include raising the public grain surtax and levying a tax on land certificates, on certain commodities and imports and exports.<sup>92</sup> The combined total will amount to the equivalent of several billion kg. of millet. But won't the peasants complain because most of these taxes fall on them? That is something we have to consider.

To enable the peasants to pay more taxes, we must help them sell their farm and sideline products and local specialties by organizing the exchange of commodities with nearby areas, with other parts of the country, and even with foreign countries. If they can sell their products, the peasants will be able to pay additional taxes. For example, by raising a hen, a peasant family can have as many as 200 eggs a year, each of which can now sell for ¥250 (¥500 in some cities). This means the family can earn an additional income of ¥50,000, or the equivalent of 25 kg. of millet. Surely the family can afford five or six kg. for additional taxes. In short, if the government wants to collect more taxes, it must help the peasants to sell their farm and sideline products and local specialties.

Purchasing and marketing more of the peasants' products will not only help solve economic problems in the countryside but will also serve to invigorate the economy as a whole. Our experience in financial and economic work during the first half of this year has shown that urban prosperity is often the result of improvement in the rural economy. An increase in the peasants' purchasing power, due to brisk sales of farm and sideline products and local specialties, will help to promote industrial and commercial development in the cities and to reduce or even eliminate unemployment there, thus raising the purchasing power of city residents as well. An expansion of industry and commerce will, in turn, help to increase state revenue, alleviate our financial difficulties and stabilize prices. All this will discourage speculation, promoting the growth of legitimate industrial and commercial enter-

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prises and stimulating the free flow of goods between town and country. These will form a chain of good results. We can therefore say that in the interest of the economy, it is essential for us to purchase and market more farm and sideline products and local specialties.

The problems are that we don't have enough capital and we don't know enough about how to manage our finances well. In the past when we needed money, we drew on the deposits the state banks had received from various sources. By October, however, no more large deposits were available. *We* had no alternative but to postpone or reduce our purchases of the peasants' products for a time (a measure detrimental to their interests) and to freeze the bank deposits of all state-owned enterprises (a job well done, thanks to the concerted efforts of local authorities).

To invigorate the rural economy, we call on local authorities to provide more effective guidance to commercial and trading companies and cooperatives, to extend credit and loans to peasants, and to buy their farm produce on credit. A flourishing rural economy will produce more income for us to use in the interests of the peasants. That is the only way we can make sure that if they are asked to pay more taxes there will be no problems. Meanwhile, we need to review our experience at regular intervals and to give our cadres some training in handling financial affairs.

Now I should like to talk about the second question: can we provide for national defence and at the same time keep the currency and prices stable? We cannot say positively that there will be no fluctuation in prices, because many complex factors are involved. These include the quantity of goods available, the demand for them, the efficiency of transportation facilities, the influence of the world situation and people's psychology. These factors, however, do not determine the stability or instability of currency value. The decisive factor in this respect is whether we are able to achieve a balance between revenue and expenditure. So to make sure that there is no fluctuation in monetary value, we should try to draw up a budget that is roughly balanced. If we can do that, we shall be able to stop issuing bank notes, or at least to reduce the amount. Prices may still fluctuate for a variety of reasons, but that will not matter very much, because we shall be able to stabilize them and maintain a more or less stable market.

In the cities people worry about a shortage of grain, while in the countryside they worry about a shortage of cotton yarn and cloth. During this conference, many comrades expressed greater concern about the latter and suggested ways to solve the problem. Since they didn't recognize that there was also a problem of grain supply, I want to call their attention to this. Many of our mistakes have been due to carelessness. To maintain a

stable market, we need to pay close attention to the supply of grain.

The main factor responsible for the shortage of grain, salt and coal in the cities is the poor transportation system. In view of the enormous strain on transportation networks, we have to plan our use of them. For example, we failed to take full advantage of last summer, which was a slack season for the transportation system. We should learn a lesson from that mistake. Militarily and economically, transportation is most important. We must therefore establish an effective organization to provide central control.

There will be barely enough cotton yarn and cloth next year. So, it is essential for us to purchase most of the supply at state-set prices and then assign it to the various departments and traders for sale. Even the capitalists will be willing to sell our goods so long as they are assured of a certain profit. If successful, this procedure will not only help to ensure the supply of cotton yarn and cloth but also have a favourable impact on the economy as a whole.

If, with our limited financial resources, we want to meet all the needs of national defence and, at the same time, keep the market and the currency stable, we have to make even greater efforts to increase revenue and cut expenditure. The period between now and January will be a golden time for tax collection. During this period we must strive to recover the 30 per cent of taxes lost because of tax evasion. Only through these efforts can we keep the market and currency stable.

During the past few days all comrades attending this conference have agreed that it is necessary to curtail investment in economic and cultural projects for the time being. If we don't do so today, we shall be forced to do so tomorrow, when the currency will have depreciated. That will not only affect state revenue and expenditure and bank deposits but will also have negative political repercussions. It is therefore better for us to reduce investment now, of our own accord. With the available financial and economic resources, it is difficult to meet all needs. We must be ready to postpone some economic and cultural projects for at least six months or a year. One day we shall be able to concentrate on building these projects. Three to five years from now, when we compare advantages to disadvantages, we shall find that the postponement was highly worthwhile. Our experience this year has proved that if industry and commerce are to flourish and commodities are to flow freely, price and monetary stability is essential. Next year, despite a decrease in state investment, industry and commerce will not suffer a recession, because the people's purchasing power will not decline.

## STRENGTHENING CONTROL OF FINANCE, MONETARY AFFAIRS AND INVESTMENT

*December 1, 1950*

1. It is necessary to reintroduce a system of periodic financial reporting. In the latter part of the anti-Japanese war some of our military units, government departments, public schools and state-subsidized mass organizations in the liberated areas stopped submitting quarterly and annual statements of accounts to the financial departments, and others submitted statements only occasionally. This was because a certain portion of their expenditures was covered by income from production projects undertaken by military and government personnel themselves.

Now things are different. The state defrays all or most of the expenses of all these institutions. Therefore, in accordance with Article 40 of the Common Programme, it is hereby stipulated that all military units, government departments, public schools and state-subsidized mass organizations must submit quarterly statements of accounts to central or local financial departments.<sup>93</sup> They must also submit annual statements, which are to be sent in no later than March 31 of the following year. The Ministry of Finance will present an overall statement of final accounts for the previous fiscal year to the Government Administration Council for examination and approval. All state-owned enterprises are also required to present financial statements at regular intervals. For this purpose, it is essential for us to strengthen financial work in all units and to give financial personnel the necessary training.

After a unit has prepared its annual statement, any budgetary surplus should be returned to the state treasury. It is a state law that periodic financial statements are to be submitted, and the law must not be violated. The submission of such statements may not be postponed without the permission

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Decision on a System of Financial Reporting, Examination and Approval of Budgets, Planning of Investment Projects and Monetary Control, drafted by Comrade Chen Yun on behalf of the Government Administration Council. It was adopted by the Council at its Sixty-first Session and published in *People's Daily* on December 14, 1950.

of the Ministry of Finance. However, under pressure to present an account at the end of the year, some units may be tempted to spend frivolously any remaining funds that would otherwise become a budgetary surplus. Leading cadres of all units must guard against such a practice.

2. All budgets are subject to examination and approval. After drawing up budgets to cover their units' operating expenses within the overall state budget approved by the Central People's Government, financial officers in military units, government departments, schools and mass organizations must have them examined and approved by their leading cadres before sending them on to financial departments of the local governments. When financial officers in state-owned enterprises prepare budgets to cover investment, they must do likewise. The financial departments of the local governments concerned are required to examine these budgets carefully before approving them. All persons in charge of such work must strictly abide by the state financial regulations and perform their duties honestly.

No unit may refuse to have its budget examined by a government financial department. If a dispute arises that cannot be settled by the parties themselves, it should be referred to the financial department at the next level, which will resolve it in consultation with the senior officials of the unit concerned.

3. Investment projects must be based on well-considered plans. In the days when we were undertaking economic projects in the liberated areas we wasted a lot of money through inexperience. We were full of hope and enthusiasm, but we often neglected to draw up a workable design and the necessary construction plans before starting a project. As a result, some projects had to be changed in mid-construction or completely rebuilt. This caused many losses to the country. In future, great care must be taken to avoid haphazard construction.

For this reason, we have decided that before submitting their applications for financial allocations for projects that have been approved by the central or local people's governments, enterprises and cultural institutions must first draw up a blueprint of the building, a construction plan, and a plan for the necessary expenditures. These plans should be examined and approved by the financial, economic, cultural, educational or other departments of the people's governments at the corresponding levels. Financial departments should refuse to make allocations to enterprises and institutions that have failed to present the necessary blueprints and construction plans for their investment projects, or whose plans have not been approved. This is a justifiable requirement, because it will help to ensure that state funds for construction are used for the right purpose at the right time and, even more

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important, that they are not wasted.

4. We must tighten control over money. Last March we established some regulations for this purpose.<sup>83</sup> Thanks to the faithful observance of those regulations by military units, government departments, mass organizations, state-owned enterprises and cooperatives, we have achieved satisfactory results. Now, in light of experience, and with a view to using funds more rationally, we have urged the People's Bank of China to institute more stringent regulations for monetary control.<sup>94</sup>

To help army units control their funds, the Bank should set up mobile branch offices to accompany army units. As far as the use of cash is concerned, all government institutions, army units, mass organizations, state-owned enterprises and cooperatives are required to draw up plans for revenue and expenditure, which must be approved by the appropriate higher authorities. When they buy commodities at home or abroad, they should ask the Bank to pay their suppliers direct. No purchases on credit, no payments in arrears, and no borrowing from other units will be allowed. Credit must be granted exclusively by the state banks. All investment for capital construction projects undertaken by state-owned enterprises must gradually be brought under the control of the banks, which will allocate the necessary funds according to plan.

In this way, the state banks will serve as the general comptroller for all public institutions.

The above regulations are designed to facilitate rational use of the country's financial resources and prevent them from being wasted. They govern all state financial affairs and must therefore be observed by all public institutions. We urge all financial departments to take these policies as their guidelines and adopt practical measures to ensure their implementation.

## STATE MONOPOLY OF THE PURCHASE OF COTTON YARN AND CLOTH

*December 7, 1950*

1. Beginning on the date of announcement of this decision, all cotton yarn and cloth manufactured by both publicly and privately owned cotton mills must be purchased exclusively by the State Cotton, Yarn and Cloth Company. Cotton mills should register their present stocks of yarn and cloth with the government, then offer them for sale to the Company. They may no longer market these goods themselves.

2. The State Cotton, Yarn and Cloth Company must offer the mills fair prices based on an accurate calculation of their production costs and including a reasonable percentage of profit.

3. Appropriate fees should be paid to both public and private cotton mills for the manufacture of yarn and cloth commissioned by the Company.<sup>95</sup>

4. The cotton mills must make sure that the quality of their products is up to the standard set by the Company.

5. In each locality a conference should be held, presided over by the local government's bureau for industry and commerce and attended by representatives of the federation of industry and commerce,<sup>87</sup> the federation of trade unions, the State Cotton, Yarn and Cloth Company and the public and private cotton mills. At this conference regulations concerning state purchasing prices, manufacturing fees and standards of quality should be drawn up. These regulations will take effect upon approval by the Ministry of Trade.<sup>1</sup>

6. The Ministry of Trade should consider total productive capacity and total demand for cotton yarn and the various cotton fabrics before it decides how the yarn is to be distributed and how the cloth is to be manufactured and sold.

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Decision drafted by Chen Yun on behalf of the Financial and Economic Commission of the Government Administration Council. It was announced on January 4, 1951.

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7. Local governments will be responsible for regulating the markets for cotton yarn and cloth by prohibiting speculation and hoarding. They will also be expected to help the State Cotton, Yarn and Cloth Company to distribute yarn and sell cloth efficiently. The Company should establish retail shops whenever and wherever necessary.

## MAIN FINANCIAL AND ECONOMIC TASKS FOR 1951

*April 4, 1951*

Since the War to Resist U.S. Aggression and Aid Korea<sup>88</sup> is still under way, our principle for drawing up this year's national Budget Estimates should be to plan expenditures in order of importance: those for national defence first, for market stability second and for other purposes third. By expenditures for other purposes I mean a wide range of items, including cultural, educational and administrative expenses and investments for economic development projects. Why must we arrange expenditures in that order? The reason is obvious: If we do not give top priority to national defence, and if we do not frustrate the arrogant aggression of the U.S. imperialists, all our economic development will be at risk.

Market stability is second in importance, because it directly affects people's lives. If, under the threat of U.S. imperialism, our currency immediately depreciates and prices soar, the reputation of the people's government will decline. The People's Republic of China has a population of 450 million. If so large a country can be so easily intimidated, people will wonder whether it will be able to carry on the war. Price stability is therefore important not only economically but also politically. We shall be able to maintain a stable market, because we have the necessary reserves. To balance our budget, we have to increase production and practise economy instead of issuing more bank notes. There is less than nine months left until the end of this year. If the war continues throughout this period but does not escalate, we shall have no difficulty keeping the market stable.

However, if we want to make the necessary expenditures for national defence and to keep the market and prices from fluctuating, we cannot afford to invest as much in economic projects as we anticipated last July and August. This year's total investment in such projects will probably amount to only US \$400 million. If there were no war, we could spend much more.

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Speech delivered at the First National Conference on Organizational Work of the Communist Party of China.

Compared to the sums we plan to devote to large-scale economic development in future, the total investment for this year is small, but compared to the figures for years past it is a significant amount. Moreover, it has been only a year and a half since the Central People's Government was established, yet its economic investments for the current fiscal year have exceeded any annual total during the time of the Qing Dynasty, the Northern Warlords<sup>80</sup> or the Chiang Kai-shek regime. This year our investments are concentrated mainly in such important sectors as water conservancy projects, railways and the textile industry.

In short, national defence, market stability and economic development are all very important. But since we have only limited financial resources, and since we cannot issue endless amounts of bank notes, we have to apportion our funds wisely. Otherwise we shall make mistakes.

Next, I should like to give you comrades a report on the main financial and economic tasks for this year. Because whatever work we are doing, we must focus on main tasks. Otherwise we shall be able to accomplish nothing. This year's financial and economic work involves six major tasks, as follows.

1. *To facilitate the flow of goods between town and country.*

Why do we give top priority to commodity exchange between town and country? Because the old China we have just taken over had a severely damaged economy, with agriculture as its dominant sector. By commodity exchange I mean the purchase of agricultural products and local specialties in the countryside to meet the needs of the urban population and the purchase of manufactured goods in the cities to meet the needs of the peasants. Such exchange will benefit not only the peasants and the urban industrialists and merchants but also the country as a whole.

Since this matter was first raised last year, discussions have been held in all provinces of north China, in Henan and Zhejiang provinces and in all counties of Hebei Province. Throughout Chinese history, no government has ever discussed this important matter, which has a vital bearing on the wellbeing of the Chinese people. If we do not solve this problem, how can the "people's government" be worthy of its name?

Right now receipts from local specialties such as hog bristles, tung oil, tea, eggs and medicinal materials account for an average of 10 per cent of total rural income, and 20 per cent or even more in some places. For example, the country's total grain yield last year amounted to 120 billion kg., while the total income from specialty products was the equivalent of 12 billion kg. of grain. Public grain<sup>18</sup> collected last year totalled about 11 billion kg. If we had helped the peasants sell their specialties, their additional income would have been the equivalent of the public grain they had to deliver. But

as it was, those products were not sold, and the peasants had some difficulty delivering the required public grain. So we should try to help peasants sell their specialties.

Last year we curbed inflation by simultaneously collecting taxes, issuing government bonds, withdrawing currency from circulation and purchasing local specialties. In March prices were stable. Nevertheless, in mid-May industrialists and merchants throughout the country began complaining about sluggish sales. So we adopted two measures to promote sales—placing orders for more manufactured goods and purchasing more local specialties. The second measure had a decisive impact, because the peasants earned large amounts of money from their products and were thus able to buy manufactured goods. By September the national economic situation had improved so markedly that the streets in some cities were once again illuminated by neon lights.

In the past, to purchase Chinese specialty products and dump their manufactured goods in China, the imperialists built wharves, power plants, warehouses, railways and even banks in Qingdao, Dalian, Shanghai, Guangzhou and other port cities. They took advantage of these cities and of Chinese capitalists to buy native products and to sell their manufactured goods, and they called this process “economic exchange between China and foreign countries.” But the nature of the “exchange” showed that China was an agricultural country exploited by foreign powers.

After twelve years of war,<sup>20</sup> there has been a radical change in the political situation in China, and traditional patterns of exchange between town and country have been completely disrupted. If we underestimate the problem and concern ourselves only with balancing revenue and expenditure, the peasants who used to shout “Long live the Communist Party!” will not be so eager to support us, because our policy will have little to do with their immediate interests.

In China today there are several hundred million peasants, tens of millions of handicraftsmen and several million industrial workers. This is the true picture of the economy. So in any work we undertake we must consider their interests. If we do not provide the peasants with cheap manufactured goods and help them sell their specialties, we cannot expect to strengthen the alliance between workers and peasants. Then the peasants will say, “Well, it’s all very well to have overthrown imperialism, feudalism and bureaucrat capitalism, but it’s too bad we can’t sell our eggs and are losing money because the price of our tung oil has fallen.” Commodity exchange between town and country is therefore very important. The entire Party membership must be mobilized to solve this problem. When we say we must serve the

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people, we mean we must solve their practical problems; otherwise it's all just empty talk.

In selling local specialties transportation is of vital importance. All persons who used to haul freight must be called into service to collect and transport those products that are not produced in any one place in sufficient quantities to fill a railway car or a truck. Under present circumstances, we have to make the best use of all traditional means of transport, because there are not many motor vehicles in China and most of them use charcoal for fuel. If we rely only on motor vehicles, we shall not be able to maintain commodity exchange between town and country. In the north, more goods are transported in horse-drawn carts than in motor vehicles, while in the south, more freight is carried on junks than on steamboats. If we ignore this fact, we shall never find the solution to the problem of transportation. Of course, this doesn't mean that there is no need to put more steamboats, motor vehicles and railway cars into operation.

The people in Guizhou Province used to have a hard time obtaining salt. Now the provincial government has helped them greatly by providing them with cheap salt, transported mostly by primitive means.

So, to facilitate the flow of goods between town and country, the Ministry of Communications must utilize all the old-fashioned means of transportation. We have to solve problems in the light of actual conditions. Right now, we can't produce automobiles on our own, nor can we supply large quantities of petrol. We can't begin manufacturing automobiles on a large scale until we have developed the iron and steel, machine-building and petroleum industries, and that will be five or ten years from now. For the next few years, therefore, we have to use all traditional modes of transport.

In May last year some people said that the country was producing too many manufactured goods. As I see it, China as a whole has only a limited industrial capacity. Actually, our industrial production cannot meet the growing demand of the peasants, whose purchasing power is bound to rise when the agrarian reform<sup>64</sup> is completed and the exchange of commodities with the cities increases. So the problem before us is not overproduction but, on the contrary, a shortage of manufactured goods. The solution is to increase industrial production.

To sum up, it is very important to provide outlets for local specialty products, to expand industrial production, and to maintain normal commodity exchange between town and country.

The twelve years of war crippled the national economy, and the Central People's Government, during its first year, worked hard to restore it. Thanks to its efforts, production is recovering rapidly, prices are stable, the flow of

goods between town and country is increasing, and the railways are running again. Ours is a great and beloved country. If goods continue to flow regularly between town and country for two more years, we shall be able to accomplish even more. That is why we must consider it our most important economic task to facilitate such exchange.

*2. To increase agricultural production.*

We have spent a large amount of money on water conservancy projects. This was worthwhile, because the people's government has the responsibility to prevent food shortages, which used to occur frequently in past years, when the ruling authorities paid no attention at all to the conservation of water. In its second year, the people's government has allocated considerable sums for construction of water conservancy projects, the total amounting to the equivalent of 1.35 billion kg. of grain. From now on, we have both the duty and the capability to prevent the frequent flooding of previous years. Two years ago about 8 million hectares of farmland were overwhelmed by floods. Again, last year, 5.4 million hectares were inundated. If the figure can be reduced to 3.4 million, we should be able to gather in an additional 5 billion kg. of grain, worth about \$500 million. That will be a great accomplishment. Therefore, to ensure a good harvest, it is of first importance to improve water conservancy facilities.

More land should be devoted to cash crops such as cotton and tobacco. Last year we picked a total of 710 million kg. of cotton. This year we expect to produce 1,050 million kg. If we can reach that goal, we shall have become self-sufficient in cotton. China is a vast, agricultural country, yet strangely enough, it has had to import cotton and grain. If this situation remains unchanged, we shall have to export bristles and tung oil in exchange for grain rather than for machines. Only when we are able to produce enough cotton and grain for domestic consumption will it be possible for us to buy machines from abroad. Indeed, we should try not only to be self-sufficient in cotton but also to produce a surplus for export.

What should we do if, following a good harvest, some regions, such as northeast China, or Hubei, Hunan and Jiangxi provinces, have a surplus of grain? I think some of the grain-producing areas may shift to the cultivation of cash crops. Meanwhile, we can encourage the 300 million peasants living close to railway lines to store a total of 2.5 billion kg. of grain, that is, an average of about 9 kg. per person. In addition, our trading companies must always have 2.5 billion kg. of grain available in their warehouses. All together, these grain reserves will total 5 billion kg., an amount that will have great political significance for our country. Grain has strategic importance. If we always have on hand 5 billion kg. of grain, we need not be afraid of

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[Harry S.] Truman or any other U.S. president. So long as we have large reserves of grain, we can live through a famine year, even if tens of millions of starving people must depend on the state for food.

3. *To introduce business accounting.*

Having spent a long time working in the countryside, most of our cadres know very little about economic matters. Last year we began to unify financial and economic work,<sup>83</sup> stabilized the markets and established trading companies and cooperatives. Nevertheless, compared with the capitalists, many of our cadres who deal with economic affairs are still quite inexperienced. True, they can do useful work, but they are dependent on the collective wisdom, the leadership of the Party and the guidance of the government's economic agencies. On an individual basis, they are no match for the capitalists.

Last year we emphasized the need to unify financial and economic work. That means that the banks should be responsible for such matters as collecting taxes, receiving savings deposits and granting loans. This is quite different from our practice during the war. In those days, wherever our troops fought, a county Party secretary, a county magistrate and the head of the local tax bureau had to be responsible for monetary matters such as revenue and expenditure. Many of our cadres now working in banks used to serve as grain carriers, orderlies or bodyguards. For example, we would say to the treasury guards, "You can sleep on the bank notes, if you like. Just make sure not to lose any of them." But we can't work that way now that we have more than two thousand counties across the country to deal with and our financial affairs are much more complex.

Trading companies should also introduce business accounting. We should tell them, "Your business is economics not politics." For example, goods manufactured in Shanghai and bound for Shijiazhuang used to be sent first to Tianjin, then to Beijing and Baoding, and finally to Shijiazhuang. A route like that was chosen not for economic reasons but for political reasons. If we conduct business that way, we are bound to lose money. We had goods traipsing around the country like tourists. Fur coats destined for Tianjin, Shanghai or Beijing were sent instead to Xi'an, where they could not be sold. Summer shirts were delivered to the stores in the big cities when it was snowing. No capitalist would have allowed that to happen. If we had been private merchants without the government to fall back on, we would have been operating at a loss.

So far as industry is concerned, we are all very enthusiastic about building factories and other projects. But we often forget that they have to be planned. Once, before liberation, we started building a railroad in the

Taihang Mountains, but we didn't make a construction plan or survey the terrain in advance. We began building from both ends at once, and it was not until the two sections were about to meet that we found a high mountain blocking our way. As a result, we had no choice but to undo what we had done. There were other similar cases. For example, when we opened coal mines in certain places, it was only after we had finished building workshops and installing machines that we found the coal veins were too thin to be worth the effort. So we had to abandon the project. Another example: once, when we had finished digging a canal and water was discharging into it, we found that in the middle section of the canal, the bottom was made of sand, so the water leaked out. Again, in Tianjin not long after liberation, some people chose a site for building warehouses the way they might have selected a favourable terrain for fighting a battle. But because some of the warehouses were not built on solid ground, they collapsed in the first heavy rain. Thus, incalculable sums of money have been wasted.

The problem is that we are experts in handling political and military affairs, but novices when it comes to managing enterprises. And if you try to do something when you don't have the necessary expertise, you will always get into trouble. People may forgive us if we waste small sums of money occasionally, but not if we waste money every year. We must be careful how we use our revenue, because it comes from the people themselves.

Before we start a capital construction project, we must draw up a practicable design. Generally, will take more than a year to design a factory, because we have to consider whether the chosen site is geologically suitable, whether there is enough water, whether chemicals in the water might damage boilers, and so on. Since we come from the countryside, we are quite ignorant of these matters. We have to start learning from the very beginning.

For example, we should learn how to do business accounting and how to achieve the desired results at low cost through careful calculations. We have to calculate the exact cost of our finished products and estimate the prices we should sell them for. We used to practise the supply system, which was quite different from business accounting.<sup>96</sup> But circumstances have changed, and we must adapt to them. During wartime it was difficult for us to follow normal business practice, but now that we are running many factories, we must overcome the tendency to continue the old supply system and adopt an accounting system instead. Many comrades who have not adapted to the new circumstances say, "Don't you trust me? Just let me control the money, and I'll account for every cent." They don't understand that when we were in the countryside, we ran only very small enterprises, such as spinning mills and munitions factories, all of which could be managed

like handicraft industries. Now, however, we are running large factories that cannot operate efficiently without a system of accounting.

When Chairman Mao and Premier Zhou were in Moscow last year, they signed an agreement with the Soviet Union under which we invited Soviet specialists to China to help design an automobile factory.<sup>97</sup> When the experts arrived in Beijing, we found ourselves greatly divided on the question of where the factory should be located. Some people were in favour of Beijing, others preferred Shijiazhuang, and still others Taiyuan. As for me, I suggested that the factory be built in the interior, in Xi'an for example. Later on we discovered that none of our proposals was feasible. If the factory was designed to produce 30,000 automobiles annually, it would need 24,000 kw of electricity. Since, at the time, Xi'an could generate an annual total of only 9,000 kw, it would take several years to build power plants capable of providing this vast amount. Moreover, it was expected that every year the factory would require more than 200,000 tons of steel, an amount which the Shijingshan Iron and Steel Plant in Beijing would need five or six years to produce. In addition, to provide the factory with some 20,000 cubic metres of timber, it seemed we would have to fell all the trees in the northwestern mountains. There was also the question of transportation. The railway from Xi'an to Tongguan, which has an annual freight capacity of only 2 million tons, would have a hard time coping with the factory's annual volume of 1 million tons. After much discussion we reached an agreement: China's first automobile factory could be built only in the Northeast. After having spent two months in Beijing, the Soviet specialists went to the Northeast to select a site. Altogether, formal discussions about the site were held on three separate occasions.

Comrades, we must make up our minds to learn, because we now have to do many things requiring skills and knowledge we do not possess. If we don't study, we shall never know how to go about economic development, and we shall never accomplish anything.

*4. To unify administration, while delegating necessary powers to local authorities.*

Administration should remain centralized, but our experience of the past year has shown that we can let local authorities manage some factories. In short, centralization and decentralization are both necessary. Last year we had to centralize our financial and economic work; otherwise it would have been hard for us to continue. We used to have huge deficits, which we made up by printing bank notes. Since March of last year, when we began introducing a system of unified administration, things have been much better. In all financial and economic work, our policy has been to keep a

firm hold on centralized administration, and to maintain balanced revenue and expenditure and stable prices.

Now, we want to delegate certain powers to local governments, which will benefit them without diminishing the authority of the central government. At a meeting held in February, we decided to establish a three-tiered system of financial administration—by governments at the central, regional and provincial levels.<sup>98</sup> Next year we shall introduce a fourth tier—the county level. Local governments will be responsible for their own taxes and expenditures, but receipts from major sources, such as salt taxes and customs duties, will be turned over to the central government. Local governments will, of course, be required to prepare workable budgets. If the taxes collected are in excess of the planned quotas, after delivering a certain portion of the surplus to the central government, local governments may retain the rest. This will give them more room for manoeuvre.

The power to manage industrial enterprises should be divided between central and local authorities. If we entrust certain factories to the management of local authorities, instead of using their miscellaneous and special funds to buy carpets and sofas for their offices, they will invest them in industry. Under local management, funds will be used appropriately, and cadres will be assigned to places where they are urgently needed. That is, local authorities will consider it their responsibility to assign more capable cadres to factories where there are not enough of them. Local leaders will be obliged to focus on management of industrial enterprises. When a case of waste or an irrational production procedure is reported to them, they will be concerned and look into the matter. After all, local enterprises are on Chinese soil too, and their development can only benefit us.

In the field of trade also administrative power should be divided between central and local authorities. The central government has the right to set standard prices, but local governments must have authority to change those prices in the light of local conditions. Some time ago, during my stay in Hankou, Comrade Li Xiannian told me that peasants in the mountain areas of Hubei Province lived a hard life, because they had no way to transport their farm produce to market.<sup>99</sup> He said that if we built a wharf at Badong so that steamboats could dock there, it would greatly benefit the local people. I agree with him on the need to build such a wharf. Local governments should have some authority to act on such matters involving rail and water transport.

Local governments can also adjust certain taxes. They can lower rates somewhat, so long as it does not harm the national economy as a whole. Since small changes in taxes will not decrease state revenue or hamper the

flow of commodities between various parts of the country, local governments should have the power to make them, as necessary.

Comrades, we often say that some of our cadres in charge of economic work have a narrow view, focusing only on their own departments and neglecting the active role that local Party and government organizations should play in other areas as well. For example, in so large a country, it would be impossible to collect public grain without the assistance of many local cadres. In addition, other matters, such as tax collection, the freezing of certain funds and the assignment of cadres to suitable posts, are being handled not only by the personnel in local economic departments but also by the cadres in county and provincial governments and Party committees, whose decisions carry a hundred times more weight than do those of local professionals. In doing economic work we must depend on local governments—indeed, on all Party members. If we don't understand this, we shall get into trouble. In short, to succeed in economic work, central and local authorities must work together with one heart and one mind.

*5. To prepare for economic development.*

Chairman Mao has stressed the need for three years of preparation followed by ten years of economic development.<sup>100</sup> The three years of preparation are to be 1950, 1951 and 1952. When we have fulfilled the ten-year development programme, China's economy will have greatly improved, and industry will represent a much large proportion of it.

Of the three years of preparation there are now only twenty-one months left. In that short time there is a great deal to be done. By carrying out the agrarian reform, wiping out bandits, suppressing counter-revolutionaries and fighting the War to Resist U.S. Aggression and Aid Korea, we are preparing for our future economic development.<sup>101</sup> Financial and economic institutions are expected to forecast revenue and expenditure for 1953. We must consider changes in the world situation and evaluate our defence capabilities to determine if we can cut back on some of our military expenses and invest more in economic projects. We must not study these matters only from a financial point of view, but from the perspective of the overall situation at home and abroad. We have to consider what projects are to be completed during the two forthcoming five-year-plan periods and how much we should invest every year in national defence, industry, agriculture and water conservancy.

At present our work in water conservancy is only designed to prevent floods and consists chiefly of repairing dikes. But from now on, we must plan projects not only for flood control but also for irrigation, transportation and hydroelectric power. Some specialists estimate that China does not have

enough water resources available for immediate use. When we draw up construction plans, we should bear this in mind. We must also plan the construction of transportation projects, calculating the total mileage of roads and railways to be built and the average cost per kilometre. In industry we have to refine petroleum, produce chemical fertilizers, manufacture electric generators, build power plants, and so on. If we can accomplish these things, our national economy will be able to expand. At first, we should manufacture small electric generators; later we can make big ones, like those now operating at the Xiaofengman power station.<sup>102</sup> Later too, we can build tanks and airplanes and big automobile plants.

Before we begin to build a factory, we should calculate the exact amount of money to be invested, and plan what that money is to be used for and according to what priorities. Thereafter, we should keep records of all expenditures. Preparations must be made in good time. In machine-building, plans also need to be made for the purchase of machines, because some of them may not be delivered for eighteen months or even two or three years after we place the order.

Then too, we have to anticipate the needs of the people. If we concentrate only on heavy industry to the neglect of light industry so that there is a shortage of commodities, people will complain. China's industry has grown very slowly. In the old days the peasants did not consume many manufactured goods. However, there are now 70 to 80 million rural households, comprising a total of 380 million peasants. We have to anticipate that if every household wants just one pane of glass, the total will be 70 to 80 million. Right now we do not have factories capable of producing enough glass to meet their needs. Again, some people say that the 2 million cartons of cigarettes we produce every year are a little more than necessary. Most Chinese peasants smoke pipes. But if they all switch to cigarettes, there will be a great demand for them.

We can foresee a tremendous prospect of expanded light industry. But the problem is that state-owned enterprises now account for only a small proportion of light industry. For example, state enterprises have only 40 per cent of the nation's spindles, while 60 per cent belong to private enterprises. Some capitalists would like the government to engage solely in heavy industry and leave light industry to them. Moreover, they would like the government to produce only raw materials while they themselves manufacture goods. In short, they want to make money but to shift all the burdens onto the government. Of course, we don't intend to do as they wish.

We must anticipate that the peasants' purchasing power will increase substantially in the next few years, and in view of the present shortage of

manufactured goods, we have to try to produce more. Meanwhile, we should conduct surveys among the people to see what commodities they really want. We need a plan for the development of light industry. We must see to it that state-owned and private enterprises are in rational proportion, the former being preponderant, and that both grow at the same time.

There are now five different sectors of the economy,<sup>77</sup> but we must ensure that the state sector plays the leading role. It must be strong enough to control the private sector. Last year, because we had on hand stocks of important commodities like kerosene, grain and cotton yarn and cloth, the private merchants had no alternative but to obey our orders. The same is true in industry. We do not want to push the capitalists out of business. But they now have a greater share in the economy than we do, so we have to develop the state sector more rapidly than the private sector. To this end, we must build many more factories and produce large quantities of consumer goods.

We must also invest more in cultural and educational projects, because to run a factory we need not only workers and administrative personnel but also engineers and technicians. There must be a proper percentage of such people. At present we need large numbers of skilled workers and administrative personnel and, especially, experienced technicians. Generally, for every hundred workers there must be at least one technician. In China today there are not many intellectuals. Gone forever are the days when graduation meant unemployment. There are only a little more than a hundred thousand students in colleges and universities in all parts of the country, and only about twenty thousand graduate every year, far fewer than are needed in all fields. Only four hundred thousand students a year graduate from middle schools—again, not enough to meet the needs of the Party, the government, the army and the mass organizations. That is why there is a serious shortage of cadres.

For the past two years we have spent only small sums on education. Unless we devote more money to education in future, we shall find it hard to move ahead in other areas. We do not even have enough skilled workers to man the newly built factories. We have to train the workers.

We must estimate our current financial resources and calculate how much we shall need for economic and cultural projects, for national defence and for basic consumer goods. We shall soon establish a national planning commission to draw up a preliminary overall plan for construction projects.<sup>103</sup> We shall organize geological survey teams to determine the location of metallic ores, such as gold, silver, copper, iron and tin.<sup>104</sup> Very few data about our metallic reserves are now available. Before liberation only about two hundred geology students had graduated from our universities. We

need many more. There are many places in China where no geological survey has ever been carried out. People used to say that we didn't have this or that mineral in China. How could they know, since we had never prospected for those minerals? No doubt if we look for them, we shall find many mineral deposits.

For the present, we must rely on estimates, because we do not have accurate statistics. In the absence of statistics, however, estimates can be very useful. We have not yet begun to compile statistics. We still find it hard to make up a statistical table. The model drawn up for us by the Soviet experts seems too complicated. We should therefore use statistical means that suit our present conditions. In an agricultural country like China, we cannot expect to compile statistics reflecting the exact number of chickens and pigs in each peasant household. In this early stage of national construction, we can draw up just rough plans for our projects. In future we shall be able to prepare more detailed ones.

There is a great deal to be done to prepare the country's development programme. But we do not have much time left, so both central and local authorities will have to work hard if we are to accomplish all our tasks.

*6. To educate the personnel who deal with financial and economic matters.*

The people who are now dealing with financial and economic matters are a mixture of senior cadres, new recruits and former personnel of the old regime. On the whole, the ones working in our factories are reliable, but that is not always true of the ones working in government organs, who often have complicated political backgrounds. Although some of the personnel held over from the old regime do not behave well, we should continue to employ them and to educate them. Our policy should be to try to educate them and, if that fails, to dismiss them. In the education process, we may find some people we can trust, and with their help, we can educate others and identify and expel the bad elements. This will be an effective way to approach the problem. I don't think this task can be completed by the end of the year.

Our financial and economic personnel are very busy with daily routine jobs—handling official letters, documents and telegrams and attending meetings. Because they don't have much experience, and because they have a heavy work load that does not leave them enough time to study problems carefully, they tend to work haphazardly and make mistakes. As a result, although they work very hard, they are accused of hard-working bureaucrats.

All government personnel have a great many things to deal with. They have to identify the most important tasks, or they will be at sea without a compass. Last year we concentrated on two major tasks: the unification of financial and economic work and the readjustment of industry and

commerce.<sup>73</sup> Thanks to unification, prices became stabilized, but sales of commodities remained sluggish. Only after we readjusted industry and commerce did business return to normal. By accomplishing these two tasks—the first before June, the other shortly afterwards—we were able to stabilize the national economy as a whole.

It is very important to provide political education for our economic personnel. Busy all day long making calculations on the abacus, many of them don't have an overall view of the country's situation. To overcome this shortcoming and avoid mistakes, they need to devote two or three hours a week to political study.

Our successes of the past year may make some of our economic cadres conceited. We should warn them against complacency and point out that it was the efforts of the whole Party that made our achievements possible. We should remind them that it would have been very difficult for us to succeed in economic work had there not been the successes in the agrarian reform, in the War to Resist U.S. Aggression and Aid Korea and in the campaign to suppress counter-revolutionaries. Just imagine, if bandits had been rampaging everywhere, how could we have collected taxes? And if the U.S. imperialists had been forcing their way into our country, how could industrialists and merchants have been persuaded to pay any? All cadres in charge of financial and economic work must be aware of this point.

We still have many heavy tasks ahead of us, there are still many shortcomings in our work and we are still far from proficient at it. We still have much to do to prepare for economic development, and there are only twenty-one months left. Therefore, we must always be careful about our work. If success makes people conceited, they tend to grow careless and to make mistakes. We must explain this clearly to all financial and economic personnel. Otherwise we shall be doing them a disservice.

Considering the nation's overall interests, we think it wise to postpone assigning more cadres to financial and economic departments until we have successfully completed the most pressing tasks—the agrarian reform, the War to Resist U.S. Aggression and Aid Korea and the campaign to suppress counter-revolutionaries. We don't have to worry about our cadres' inexperience; they will gain proficiency through practice. In terms of urgency and importance, the agrarian reform and the campaign to suppress counter-revolutionaries take precedence over financial and economic work. Still, we have to retain enough cadres to handle taxation, or it will be hard to keep markets stable.

Ninety per cent of our financial and economic cadres are working outside Beijing. This means that local authorities must take responsibility for

educating them, emphasizing the need to serve the people. Through criticism they should help the cadres overcome such ideological failings as individualism, selfish departmentalism, one-sided thinking and the belief that technical skill is more important than anything else. It is in the interest of the entire Party to educate our financial and economic personnel, but it will be a difficult task in which the entire Party must participate. We hope that all local Party organizations will cooperate in this endeavour.

If there is a good harvest this year, and if we can produce enough manufactured goods to match the peasants' increased purchasing power, there will be a greater flow of goods between town and country than there was last year. If that happens, people will believe that the government really wants to improve their lives, and they will call it the people's "devoted servant." The old regime proclaimed itself to be the "public servant", but it often rode roughshod over the people, and its officials were highly paid and lined their pockets besides. Now the people's government truly serves the people, because it is doing all it can to help them overcome their difficulties. People are fair-minded, and they support the government. So long as the government and the people are united, our country will be invincible and we can look to a bright future.

## AGRICULTURAL DEVELOPMENT IS OF PARAMOUNT IMPORTANCE

*May 16, 1951*

According to statistics compiled by the old regime, China's farmland amounts to about 1.45 billion *mu* [1 *mu* = 1/15 hectare]. Before the anti-Japanese war the highest annual output of grain, not counting beans and peas, was over 135 billion kg. In 1949 the country's total grain output fell to 105 billion kg. Last year it was up somewhat, totalling over 120 billion kg., but on the whole, agricultural production remains below prewar levels.

It is true that in a few localities in the old liberated areas of northeast and north China, agricultural production has exceeded, reached or approached prewar levels. This is because we conducted the agrarian reform<sup>105</sup> and encouraged the peasants to form mutual-aid cooperative teams, improve farming techniques, select fine strains, undertake water conservancy projects and expand output. In general, however, agricultural production in the new liberated areas is below prewar levels, owing to the havoc wrought by twelve years of war,<sup>20</sup> when the Kuomintang regime bled the peasants white through exploitation, many water conservancy facilities were damaged, and countless farm animals died.

To increase agricultural production, we must do the following three things.

1. *Complete the agrarian reform in the new liberated areas.*<sup>2</sup> That is the only way to arouse the peasants' enthusiasm. The experience of the past few years shows that once the land has been distributed among the peasants, they will save every cent possible on food and clothing and invest all they have in production. When the peasants have their own farm animals, when they have installed waterwheels and formed mutual-aid teams, production is bound to increase.

2. *Prevent floods and combat droughts.* Last year about 50 to 70 million

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Excerpt from a speech made at the First National Conference on Propaganda Work of the Chinese Communist Party.

*mu* of farmland were flooded. In most years to come, so long as the total area affected does not exceed those figures, and there are no other natural disasters, we can still expect good harvests. In such a vast country, floods are likely to occur somewhere every year, so relief funds should be included in every annual budget.

We have spent a considerable sum on water conservancy—about 150 million silver dollars.<sup>12</sup> However, most of that money was used for temporary solutions to the problem of flooding, rather than for the permanent control of rivers. Most of the existing water conservancy facilities have to be repaired every year, or they will not stem the floods. Water is vital to agriculture, but we have not yet harnessed it effectively. In the years to come, we must do our utmost to bring water under permanent control. This is not a task that can be accomplished in one or two years: it demands persistent efforts over a long period of time. Nevertheless, we must make those efforts, because an average annual flooded area of 50 million *mu* would mean an annual loss of at least 7.5 billion kg. of grain, which is an enormous amount.

According to estimates, the country as a whole is poor in water resources. In addition, some places suffer from frequent droughts. Therefore, from an overall, long-term point of view, top priority should be given to water storage, along with flood control. We must urge local authorities to build reservoirs, dams and dikes, and call on people in mountainous areas to preserve their water resources, use them efficiently and prevent soil erosion by planting trees and grass. In some parts of north and northwest China many wells should be dug to guarantee an adequate supply of water during dry spells.

Thus, in promoting economic development, two of our major tasks, both requiring large yearly expenditures, will be to discharge floodwaters to prevent waterlogging and to store water as a precaution against drought. Since the purpose of building water conservancy projects is to bring the rivers under permanent control, it is a task of vital and lasting importance. Surveys are now under way, and construction plans are being drawn up.

To cope with flood or drought, we must store sufficient supplies of grain. Last year good harvests were reaped, and people everywhere said that grain was very cheap. Right now there is talk of a possible grain shortage due to lack of rain in the North and excessive rain in the South. I have often thought it necessary to take precautionary measures in the matter of grain reserves. How much grain should we have in reserve? Roughly 5 billion kg. should be enough.

In a famine year, when as many as 50 million peasants have no grain because their crops have failed, we must be able to offer each of them a daily

ration of 0.25 kg. for a period of six months until the next harvest season. With a monthly grain allotment of 7.5 kg., each peasant will need 45 kg., and the total needed by 50 million peasants will be 2.25 billion kg. Also, in a famine year as many as 15 million city residents will probably require a monthly grain ration of 12.5 kg. per person, or 150 kg. a year. This means we shall need a total of 2.25 billion kg. of grain for city residents. All told, the relief grain for the rural and urban populations will come to about 4.5 billion kg. Only if we have 5 billion kg. of grain on hand will it be possible for us to cope with this difficult situation.

Of course, it would be much better if the government had as much as 10 billion kg. of grain in reserve, half in the peasants' keeping and the rest at the government's disposal. That would enable us to come through a very severe famine. With huge grain reserves as a strategic asset, we should have no need to fear a possible war launched by the imperialists. But an increase in grain reserves depends primarily on the peasants. Whenever there is a good harvest, they must be encouraged to store more grain for future use. If all peasants stored an average of 5 to 7.5 kg. per person, the total grain reserves in rural areas would amount to 2 to 3 billion kg.

2. *Readjust the geographical distribution of farm products.* We need to build railways in southwest and northwest China. Grain is now very cheap in southwest China. In Chengdu, for example, it is hard to sell rice, even at the low price of 1,000 yuan<sup>2</sup> per kg. In contrast, everyday clothing, such as trousers, is very scarce in some parts of southwest China.

Poor transportation facilities make it difficult for local farm products to be moved to other parts of the country and for manufactured goods to be shipped in from other regions. Only small quantities of such goods can be sent to southwest China, mostly transported on carrying poles. If railways are built in southwest and northwest China, these difficulties will disappear. Railway construction in the two regions is very important, not only for the economy but also for national defence.

By accumulating more grain reserves during good harvest years and building more railways to provide convenient transportation, we shall be able to avert a panic over grain supplies. When railway construction is completed in southwest China, we shall classify the various crops and readjust the areas where they are grown, so that major crops, like cotton and grain, will be cultivated in areas with suitable soil and climate. More land should be devoted to growing wheat. Wheat flour now constitutes two-thirds of the staple food of people in Beijing and Tianjin. Since there is not enough wheat, they have to depend on corn meal for the rest. We should encourage the cultivation of soybeans in the Northeast. In southern regions, however, land

on which soybeans are now grown should be planted to cotton. At present, in the whole country only 57 million *mu* are devoted to cotton cultivation. In future we need to increase that figure to over 80 million *mu*.

Rubber is a major strategic material. Since the outbreak of the Korean War<sup>88</sup> we have been unable to import it. Hainan Island is suitable for rubber plantations, but its current output is relatively small. Rubber trees can also be grown in some other parts of the country, although with lower annual yields than in the Malay Archipelago. Still, it is better to have low yields of rubber than none at all. To meet our demand, we need to plant as many rubber trees as possible.

Until railways have been opened in southwest China, peasants there will still have a hard time, because most of their grain cannot be transported to market in other regions. Fortunately, the agrarian reform has made their lives somewhat easier. Nowadays, in addition to having enough to eat, they are able to purchase more cotton cloth, so that all young women can afford decent clothes. If we readjust the distribution of farmland for different crops, the peasants' income will begin to rise considerably.

China is an agricultural country, but it has always had to import grain, cotton and other farm products. Although the situation is much better now than in previous years, agricultural development remains of paramount importance. Without a developed agriculture, it will be hard to expand the nation's industry.

## CALLING UPON THE PEASANTS TO SELL COTTON TO THE STATE

*June 1, 1951*

The Administration Council of the Central People's Government<sup>40</sup> has issued a directive on the purchase and storage of cotton, and the CPC Central Committee has instructed local Party committees at all levels to act on it. This directive deals with an important matter, one that will affect the national economy and the daily lives of the soldiers and of all the people. Accordingly, throughout the country, and especially in cotton-growing areas, it must be taken very seriously.

The Council's directive and the Central Committee's instructions are intended to ensure that there is a sufficient supply of cotton to meet the urgent needs of the textile industry. To this end, cotton growers are being asked to sell their reserves to the state or to store them in warehouses belonging to designated state institutions on terms that will be to their own benefit and to the benefit of society.

The people's government has always been very concerned to increase cotton production and protect the interests of cotton growers. In carrying out the agrarian reform,<sup>64</sup> it is taking a number of measures to this effect. These include: setting a floor for the price of cotton, prohibiting speculators from forcing the price down, guaranteeing that the state purchases cotton at a fixed price, levying lower taxes on cotton than on grain, supplying peasants with large quantities of fertilizer at the right time and placing state orders for cotton well in advance of the harvest season. Thanks to these measures, cotton production increased last year, and more land has been devoted to cotton this year. As a result, peasants in the old liberated areas are now leading a much better life than before.

For many years China has imported large quantities of cotton. In the year and a half since its establishment, the Central People's Government has taken action to promote cotton production, and the result was last year's

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Editorial published in *People's Daily*.

bumper harvest. But the problem now is that since people's lives have improved, the demand for cotton yarn and cloth is increasing. Last year, for the first time, we launched a nationwide campaign to increase production, but after we deducted the amount of ginned cotton retained by the peasants for their own use in making padded quilts, coats and homespun cloth, total output was not quite enough to meet the needs of cotton mills in all parts of the country. Taking advantage of this shortage, the U.S. imperialists are now blockading our country in an attempt to prevent us from exporting products in exchange for cotton. But the imperialist blockade is doomed to failure. We are fully confident that before too long we shall be able to produce not only enough grain to meet the country's needs, but also enough cotton.

We shall inform the peasants that if, after reserving a certain amount of last year's cotton for their own use, they sell all the rest to the state, cotton mills throughout the country will have almost enough. Many peasants now have large amounts of cotton on hand, but recently the amount they offer to the state has been steadily decreasing. If they go on refusing to sell their cotton, or selling only very little, the cotton mills will be forced to cut back production, and the soldiers and the people throughout the country will lack for clothing. Moreover, this shortage may cause price fluctuations. So the Government Administration Council calls on cotton growers in all parts of the country to sell their reserves to the state at reasonable prices or to store them in state warehouses with the option, at a later date, of withdrawing them or selling them to the state. This will be beneficial not only to the state and the whole people but also to the cotton growers themselves.

"If you want to be rich, grow cotton"—that has become a popular saying among the peasants. And under present circumstances, growing cotton really can help one become rich: the improved living standards of the peasants in the old liberated areas are proof of that. In the past, however, not all peasants who grew cotton were able to better themselves. On the contrary, in the old days under reactionary rule, they often lost money when, after a bountiful harvest of cotton, the price would drop, just as they lost money when the price of grain fell. Only the people's government can help cotton growers become rich, because it has reformed the system of landownership and implemented policies to protect their interests. Only when the country belongs to the people can cotton growers hope for prosperity. This is a fact. Without our victory in the revolution, the establishment of the people's government and the agrarian reform, it would be absolutely impossible for the cotton growers to improve their lot.

So the saying "if you want to be rich, grow cotton" is only a half-truth.

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More important is that only by strengthening our country can we hope for a life of abundance. Party organizations, local governments and mass organizations in the cotton-growing areas should make this clear to the peasants, so that recognizing the absolute importance of building up the country, they will be willing to sell their cotton reserves, at reasonable prices, to the state. Using the slogan "To show your love for the country and to earn more money for yourself, grow more cotton," they should also encourage the peasants to increase output by planting more land to cotton and introducing intensive-farming techniques.

State trading companies, supply and marketing cooperatives and the People's Bank of China should pay the peasants reasonable prices for their cotton and make it easy for them to store cotton. Because the state trading companies have not been established long, there are still many shortcomings in their work. Also, they cannot provide enough goods to meet the peasants' needs. They must make every effort to overcome this deficiency so that the state will be able to purchase all the cotton it needs.

In most of the cotton-growing areas the agrarian reform has been completed. In the old liberated areas the peasants have considerable reserves of cotton, and they have strong political awareness. So long as local governments and Party and mass organizations work together, we can succeed in our effort to buy cotton. We believe that peasants in all parts of the country will show their patriotism by responding to the call of the Central Committee and the Government Administration Council and vying with each other to sell cotton to the state. We also believe that they will devote more land to cotton, introduce intensive-farming techniques, and do all they can to increase production as an answer to the imperialist blockade.

## IMPROVING THE WORK IN THE FEDERATIONS OF INDUSTRY AND COMMERCE<sup>87</sup>

*July 20, 1951*

My speech today will cover four topics.

### I. THE SITUATION IN INDUSTRY AND COMMERCE AND THE MEASURES OUR PARTY PLANS TO TAKE

The situation in industry and commerce throughout the country is improving, as can be seen from the increase in the output of manufactured goods (including handicraft products) and in the volume of sales. Even in some areas where the situation is poor, the total sales volume is still expanding. But the most convincing evidence is that tax receipts in the cities have been rising every month. The second quarter of a year is usually a slack season for industry and commerce, but this year tax receipts for this period have already topped 11 trillion yuan,<sup>2</sup> exceeding the amount for the first quarter. This upturn will probably continue. We expect that the output of manufactured goods will expand still more, followed by the output of handicraft products. In Hangzhou, three kinds of handicraft products—umbrellas, fans and scissors—are all sold out.

This improvement in industry and commerce, however, has been uneven, some enterprises expanding while others close down. Generally speaking, industry is faring better than commerce, but there, too, progress is uneven, with some industries growing more rapidly than others and a few even contracting. The degree of improvement varies from region to region as well. South-central and southwest China are not doing so well as north China, which has been liberated longer, or as east China, where there is a

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<sup>2</sup>Speech delivered at a meeting of members of the Department of United Front Work of the Chinese Communist Party.

greater concentration of industry.

This uneven development is quite normal in a period of economic restructuring, and there is no need to worry about it. Economic restructuring means replacing the old economic system with a new one, transforming an economy once dominated by imperialists, feudalists and bureaucrat-capitalists into a new-democratic economy. But since there is a shortage of manufactured goods, we shall allow all private industrial enterprises, whether imperialist or bureaucrat-capitalist, to maintain normal operations and to expand, provided they accept our leadership. Conditions in commerce, however, are somewhat different. The agrarian reform<sup>64</sup> is an economic and political revolution, through which ownership by landlords is being replaced by ownership by the peasantry. As a result, changes are taking place in the entire rural economy and in other sectors as well. State-owned commercial enterprises are beginning to replace foreign merchants, speculators and unnecessary middlemen. The establishment of cooperatives in the new liberated areas is another step towards discarding the old economic system. Some industrial enterprises that used to function under the old system are having to change too, since they can no longer rely on the imperialist countries for raw materials but must turn to the domestic market for them. In short, the conditions of the Chinese economy will make it possible for most enterprises to expand, but some will have to close down. If it were otherwise, we could not speak of economic restructuring, let alone a revolution.

This period of economic restructuring will last for some time, with some enterprises expanding while others fail. But we must all be aware that a new phenomenon is emerging among the industries that are expanding. During the restructuring, all five sectors of the economy<sup>77</sup> can develop, each playing its own role. However, the cooperatives have not yet taken their proper place. Also, middlemen cannot continue to function as in the past; some will have to go out of business or take on different roles. The new phenomenon in certain expanding industries is that people want to make exorbitant profits. Private industrialists used to be very grateful to the government for placing orders with them, but now some of them regard this practice as a burden, because it only allows them normal profits. This idea has not taken hold everywhere and should not be overestimated, but I should like to point out that it is spreading.

In view of these circumstances, we have decided on a three-point policy.

1. To encourage the expansion of those privately owned industrial and commercial enterprises that benefit the national economy and help to improve the people's lives. This expansion will be useful not only in developing the new-democratic economy now, but also in building socialism

in future. It would be wrong to fear it.

2. To guide the transfer of labour and capital from one enterprise to another. I think that the transfer of labour is the more difficult problem, so we should concentrate on that. Since the Conference of Directors of the Bureaus for Industry and Commerce<sup>75</sup> last year, there has been very little progress in this respect. We had better keep our plans in this connection to ourselves, or we shall be hampered in our action. We should not talk about what we are doing. Generally speaking, local authorities should be mainly responsible for assisting in this work.

In cities of any size—whether small, medium or large—it will eventually be possible to effect the transfer of labour, so we should not be discouraged. In large cities economic development will require a large work force, including a great number of intellectuals, so that sooner or later people who are looking for new jobs will surely find them. Last year people were saying that intellectuals could not earn a living, but I said that not only would there be opportunities for them, but they would be in great demand. On July 1 this year, I wrote an article arguing that the days when graduation from college meant unemployment are gone forever.<sup>106</sup> In fact, that is even true of graduation from middle school, although to be on the safe side, I did not say so. In Beijing today even an unskilled labourer can earn as much as ¥30,000 a day, so anyone who is hungry will be willing to carry bricks. In small cities people need not be afraid of imminent factory closing, because most industries there are handicrafts, and after the agrarian reform these will flourish for some time. The investigations I have conducted in the Northeast have confirmed this conclusion. Nor will the cooperatives replace private businesses very quickly, because they are still weak and in the initial stage they will chiefly be involved in purchasing, not selling. So privately owned shops and factories in small cities will not soon go out of business; on the contrary, after the agrarian reform they should do very well for a time. Therefore, this transfer of labour is possible both in large and medium-sized cities and in small cities.

3. To strengthen leadership. This means that we should stress the leading role of the state sector of the economy and of state planning. Comrades, please note that for the first time I am speaking of the leading role of state planning, not just about the leading role of the state sector. State planning is going to become a crucial weapon for us in the struggle between the state and private sectors. In future, production, pricing, manufacturing and ordering of goods will all be subject to the state plan. This has already been stipulated in the Common Programme.<sup>78</sup>

To be more specific, in industry we shall see to it that the state plays a

major role in producing everyday necessities. Right now there are too few state-owned factories to guarantee their leadership of industry as a whole. It is also essential to expand the state capitalist component of the economy, that is, to place more orders for manufactured goods with that sector. In commerce the state sector must be strong enough to stabilize the wholesale and retail prices not only of those products in which it now deals—grain, cloth, cooking oil, salt and coal—but also of other essential commodities.

I have included the cooperatives in the state sector, because they are semi-socialist. It is essential to develop them, but at a pace that is in keeping with the pace of overall national and local economic development and restructuring.

In general, in industry and commerce we must maintain proper proportions of the different sectors of the economy, so that the state sector leads the others but also cooperates with them. As for concrete figures, it will take us some time to discover what the optimum proportions are. For a long time to come, the state sector, the cooperative sector and the private sector will expand side by side, thus promoting economic development as a whole. Since all sectors are to expand simultaneously, conflict is inevitable—but by that I don't mean hand-to-hand combat.

## II. THE FEDERATIONS OF INDUSTRY AND COMMERCE

The present federations of industry and commerce are different from the chambers of commerce in old China.<sup>107</sup> Although most of their members are private enterprises, they also include state enterprises. The former general chambers of commerce were controlled by the old government, while the present federations are led by the people's government. Although the federations are the major organizations representing the interests of private enterprises, they must comply with the provisions of the Common Programme. And unlike the former chambers of commerce, the federations have the responsibility of assisting the people's government and guiding industrialists and merchants.

Now I should like to discuss four questions concerning the organization of the federations.

1. Should peddlers and handicraftsmen join the federations? In principle, yes. In medium-sized and small cities, there are no factories and not many big stores, so if peddlers and handicraftsmen are not permitted to join, the federations will not have many members. In large cities,

where we can't work on small, medium and large enterprises all at once, we should first try to bring in some large stores and factories. The peddlers and handicraftsmen can join later. This is only a question of timing; it does not mean that we want to exclude them. Indeed, it is better to organize them in this way than to leave them under the control of local public security bureaus. They should be organized by city rather than by district. At first it will have to be done by district, but at the proper time we should set up city-wide unions of peddlers and incorporate them into the federations. In this way we can persuade both peddlers and big enterprises to join the federations.

2. Should the cooperatives join the federations? Generally speaking, the answer is again yes. The All-China Federation of Cooperatives believes that it is worth a try.<sup>108</sup> But since the cooperatives themselves are still weak, they are afraid they might lose by joining the federations. They have suggested that in one or two regions cooperatives at the provincial or county level should join the federations on an experimental basis. I think that is a good proposal.

3. There are three types of individual members in the federations: persons from the trade associations,<sup>86</sup> persons from enterprises and certain persons specially invited. It is no longer necessary to join a trade association before joining a federation. Usually in small cities and even some medium-sized ones, people first join the local federation and then are divided by trade into smaller groups, which are different from the trade associations in large cities. But in general, in large and medium-sized cities, we should not disband all the original trade associations and make people join the local federations in groups by enterprise. Some trade associations have considerable funds and large staffs; it would be only reasonable to allow a federation of industry and commerce to take advantage of those assets. We should find some way to make that possible without abolishing the associations. When the federation has done a good job for a long time and has gained some reputation, it will be able to ensure that those funds and personnel are used to good purpose. Even so, we should be careful in handling this problem and proceed as if we were feeling out the stepping-stones to cross a stream. Otherwise we shall make mistakes. It is better to work slowly and make steady progress than to rush into things and make mistakes, especially when we are dealing with national economic questions. If it takes two or three months longer to finish the task, the sky won't fall. In some places, private industrialists and businessmen are already joining the local federation as individuals. That's all right. We can wait and see how it works out. What should we do about the ones who have not yet joined? True, it would be better if they did join, but

the federations' charters do not have to provide that all of them must do so. The federations should try to persuade them to join, and the government can take steps to make the task easier.

4. The federations of industry and commerce should have a three-tiered organization: national, provincial and county. We do not need chapters at the regional and prefectural levels. When necessary, regional authorities could call a joint meeting of provincial chapters under their jurisdiction and prefectural authorities could do the same with the county chapters; or they could simply call a meeting of representatives of industry and commerce in their areas. The district offices of the federations that are already established in large cities may continue operating to gain some experience.

Now I should like to say something about the leadership of the federations. In selecting leaders from private enterprises, we should consider four points: the nature of the enterprises they come from (industrial or commercial), the size of the enterprises, the individuals' factional affiliations and their political attitudes. The most important thing is for the leadership to be representative. By representative I mean that it should be consistent with the local economic conditions and reflect the composition of the membership. Within this guideline, insofar as possible, we should choose more leaders from the industrial enterprises. There will also be a certain number of leaders from state-owned enterprises, but here again we cannot appoint too many of them. Comrades in the localities should determine the correct proportions.

Now about the work of the federations. The federations have done a great deal of work in many areas, especially taxation, that has been beneficial both to its members and to the country and that should be continued. However, in some localities they have taken on too many unnecessary responsibilities on behalf of the government and have not provided enough guidance to private enterprises. This is not good, and it has to be changed. But that doesn't mean the federations should no longer assist the government in its work. Assisting the government and guiding enterprises are equally important functions. The overall aims of the federations are to make sure that their members comply with the Common Programme, to help the government implement its decrees and policies and at the same time to serve their members by advising them on management and educating them. Let me add that according to the reports given at this meeting by comrades from the localities, the federations have been playing an important role in educating private entrepreneurs.

### III. THE PARTY'S LEADERSHIP OF THE FEDERATIONS

First of all, it is essential for the Party to unify its leadership of the federations by following uniform policies. At present the different local financial and economic departments (the bureaus for industry and commerce, the taxation bureaus, the labour bureaus, etc.) do not all follow the same procedures. Neither do the leading Party members' groups of the various local federations or the financial and economic commissions of the different regions. This is not good. In large and medium-sized cities, we should establish councils to take charge of industrial and commercial affairs. These councils should become Party organizations and, under the leadership of the municipal Party committees, they should unify Party policies regarding industry and commerce (including the work of the federations). They should be made up of personnel from the local departments of united front work, from the leading Party members' groups of the financial and economic commissions and of the federations of industry and commerce, and from the federations of trade unions.

Second, we have to strengthen the work of the leading Party members' groups in the federations. These groups should be composed of the chief cadres working for the federations as well as those representatives of state-owned enterprises who are Party members. The leading Party members' groups of the federations are under the leadership of the municipal Party committees, but in most cities, those committees can entrust the councils in charge of industrial and commercial affairs with the responsibility of guiding the groups' work.

Third, we must strengthen the work of the representatives of state-owned enterprises in the federations. At present most of them are not paying enough attention to the federations. There are three underlying reasons for this: the work is difficult, they don't realize how important it is and they don't receive enough guidance. We should look for a small number of representatives of state-owned enterprises who can spare some time from their regular duties to work for the federations. We should be able to find such people in the large and medium-sized cities and even in some small ones. They should be familiar with their own professions, because otherwise they will have difficulty with their work in the federations. Capitalists are realists. If they see that these representatives of state-owned enterprises are capable of solving problems, they will support the federations.

There are three reasons for having representatives of state-owned enterprises participate in the work of the federations. One is to make sure that the state sector plays the leading role in the economy. Another is to ensure

that the state sector, while carrying out the policies for its operation, cooperates with other sectors. These policies will not be carried out in a vacuum, so there will necessarily be “friction”,<sup>79</sup> struggle and readjustment. The third reason is to enable these representatives to familiarize themselves with local conditions in industry and commerce and learn to manage their enterprises better. In planning national economic development, we must take private enterprises into consideration. The state plan has to include the private sector of the economy, or at least the most important private enterprises. Some comrades from the state enterprises feel that it is too much trouble to deal with private entrepreneurs, but during this whole period of New Democracy that will be an important part of their work, and they must not neglect it. In the past, many of them have had difficult situations to confront in their local federations, so we should be careful about criticizing them. The Central Committee of the Party will ask the local Party committee in each city to convene a conference of representatives of state enterprises, to discuss ways for them to cope with these situations.

Work among the staff of the trade associations is also important. They know the ins and outs of their trade, and it is important to bring them into the federations. They can be of great help in familiarizing us with the different trades.

Heretofore, the Party’s work among industrialists and merchants has been correctly focused on the top personnel of each enterprise. We should not relax our efforts with them, but we should also include staff at the middle and lower levels.

#### IV. ESTABLISHMENT OF AN ALL-CHINA FEDERATION OF INDUSTRY AND COMMERCE

Most of the capitalists want us to establish an all-China federation of industry and commerce. Those in Shanghai are less interested, because they already have a considerable voice in affairs. But the ones in medium-sized cities (Changsha, Nanchang, etc.) like the idea, because it would give them greater influence. Although industrialists and businessmen in small cities are not hoping for the establishment of such a federation, they do want us to organize provincial federations that can help solve problems. For the country as a whole, a national federation could do much useful work—studying various trades, allocating funds and labour and making other readjustments, all of which would promote planned economic development. All the com-

rades present at this meeting, including myself, agree on this point.

We have also discussed the possible negative consequences of establishing an all-China federation. For instance, private industrialists and businessmen will be able to organize protests, which might cause problems for us. But that is better than unorganized protest. We can accept the useful suggestions and reject the bad ones. We should not be afraid of complaints. Last year it was only because of their complaints that we convened the Conference of Directors of Municipal Bureaus for Industry and Commerce<sup>75</sup> and the Conference on Taxation, both of which helped to improve the financial and economic situation at the time.<sup>109</sup> Some comrades are afraid that if a national federation is established, all problems will have to be submitted to the central authorities, and the administrative power of local governments will accordingly be weakened. Although that is a possibility, we have never expressed any intention of depriving local governments of their power to manage industry and commerce. Higher authorities should take care not to criticize local governments for trifles, and they should not take it upon themselves to respond to any requests of private entrepreneurs. If the higher authorities monopolize all opportunities to build up credit with the private sector, the local governments will find it hard to do their work.

Before establishing a national federation, we shall convene a national conference of representatives of industry and commerce.<sup>110</sup> We all agree that in choosing delegates, we should take the following factors into consideration: the regions they come from, the proportion of representatives from industry and from commerce and the proportion from the public sector and from the private sector, the size of their enterprises and their political attitudes (whether they represent the Left, the centre or the Right). We should also include some special delegates (overseas Chinese, minority nationality people and certain prominent individuals). We have estimated the number of delegates who will attend. There are forty provinces in the country, and if the average number of delegates from each province is six, that will make 240.<sup>111</sup> There are about twenty large and medium-sized cities in the country, and supposing an average of 10 delegates for each city (probably more for Shanghai), that will be another 200. If there are delegates from other sources, the total could be around 500. Representatives of state-owned enterprises could constitute 15 per cent of the total, or 70 to 80 persons. Of the rest, 20 or 30 per cent could be conservatives and 70 or 80 per cent middle-of-the-roaders and progressives. This breakdown does not represent a final decision; it is only a provisional guide for the local authorities. When the Central Committee makes the final decision, it will send them formal notification.

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The Central Committee will also decide when the conference is to be held, what preparatory work should be done and how leaders are to be chosen. At the joint meeting of the leading Party members' group of the Financial and Economic Commission<sup>7</sup> and the Department of United Front Work, some comrades suggested that it was too soon to convene a national conference. They thought we should first promote the work in the federations in large and medium-sized cities and establish provincial federations so as to acquire some experience and then prepare to hold the conference next year. We have put this suggestion before the Central Committee for a decision.

We expect the national conference of representatives of industry and commerce to make decisions on the following matters. First, issues raised by private industrialists and merchants, in such areas as the placing of state orders for manufactured goods, pricing, taxation and relations between capital and labour. Second, the requirements placed on private enterprises by the government and by the state plan, because when the Korean War<sup>88</sup> ends and the political situation becomes stable, we shall be beginning planned economic development. Third, the election of members of the leading bodies of the national federation.

## **FINANCIAL AND ECONOMIC POLICIES AND TASKS FOR 1952**

*January 15, 1952*

### **I. APPRAISAL OF LAST YEAR'S WORK AND POLICIES FOR THIS YEAR**

Last year our financial and economic work was successful in that we were able to support the War to Resist U.S. Aggression and Aid Korea<sup>88</sup> and to stabilize the domestic market. Nevertheless, in the departments in charge of that work there were some serious problems, including embezzlement, waste and bureaucratism. In departments responsible for industry, trade and other economic matters, control over expenditure was so lax that large sums of money were wasted in capital construction and management.

The Korean war may end this year, but we have to be prepared in case it goes on longer. In drawing up budget estimates, therefore, we should bear in mind that fighting may continue during prolonged peace negotiations and that there must be enough financial resources available to support the war effort.

Without relaxing our efforts to collect revenue, we should shift the focus of our work to controlling expenditure. Similarly, without relaxing our efforts to manage financial and monetary affairs and the market, we should shift the focus of our work to industry, agriculture, transportation and so on. Cadres doing financial and economic work are now called upon to deal with unfamiliar matters they are not equipped to handle, such as industrial construction, economic planning and so on. They must learn about these things as quickly as possible.

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Report drafted by Comrade Chen Yun and submitted to the Central Committee of the Chinese Communist Party on behalf of himself and Comrades Bo Yibo and Li Fuchun.

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## II. FINANCIAL WORK

1. Tax receipts in the cities must reach a minimum of 63 trillion yuan,<sup>2</sup> and are expected to total 70 trillion. Earnings from state enterprises must reach a minimum of ¥35 trillion, and are expected to come to ¥40 trillion. The amount of public grain will be 13.2 billion kg., which will be collected according to the rates set by the state. Other revenues will be obtained as provided in the Budget Estimates.

2. We should institute a system of financial control at the provincial level, experimenting with it first at the county level. A province's annual budget estimates and final financial report should list all items of expenditure and all items of revenue, including earnings retained from taxes in excess of state quotas, local grain, local taxes<sup>51</sup> and surtax,<sup>54</sup> receipts from local enterprises and government organs and any local cash surplus. Provincial governments will not be allowed to collect or spend any extrabudgetary funds or to keep any books apart from their official accounts.

3. When the movement against the "three evils" is over, production in government organs at every level should be put under the unified management of state-owned enterprises at the same level.<sup>112</sup> And just as with national and local state-owned enterprises, the revenue and expenditure of these organs must be controlled by the financial departments at the same level and listed in their budget estimates and year-end accounts. Later we shall decide on the specific procedures.

4. There must be more effective supervision of financial affairs. We should select a large number of cadres from the county level and above to establish offices responsible for supervising financial affairs at the central, regional and provincial levels. These offices will audit the accounts to determine if funds are being used properly. Funds to cover the administrative expenses of local departments under the central government should be allocated at regular intervals by the Ministry of Finance to the financial departments of the greater administrative regions and then passed down. The regional, provincial and municipal financial departments should be responsible for approving requests for funds and supervising their use.

5. Banks should be established in the army to ensure better control of money.

6. In certain key enterprises we should introduce a system of independent accounting on a trial basis.<sup>113</sup>

### III. ALLOCATION OF BASIC MATERIALS

It has been decided that the central authorities will be responsible for allocating twelve basic materials: pig iron, steel ingots, rolled steel, timber, coal, cement, bronze, electrolytic copper, tungsten, antimony, tin and newsprint.

### IV. ALLOCATION AND PURCHASE OF GRAIN

1. More land has been devoted to cash crops, and at the same time, thanks to the higher living standards brought about by the agrarian reform,<sup>64</sup> the peasants are consuming more grain. This means that grain is generally in short supply. However, we estimate that the grain output in 1951 may have increased by 7.5 billion kg. And this year the government may have on hand over 3.5 billion kg. of grain more than last year, all of which can be put on the market. So provided we manage carefully, there should be no cause for alarm. Except in northeast China, which has been allowed to determine its own grain quota and plans to purchase 3.55 billion kg. (the more it can buy, the better), all localities should try to fulfil or overfulfil the quotas set by the Ministry of Trade<sup>34</sup> and to make allocations according to the plan drawn up by the Central Financial and Economic Commission (CFEC).<sup>7</sup> All areas required to turn over some of their grain to other places should do so in full. On the other hand, areas that need grain should not ask for more than necessary. In addition, the Central Financial and Economic Commission should have the power to allocate surplus grain to areas of shortage. So long as we centralize control of grain allocation and proceed carefully, the key grain markets in the country will remain stable.

2. The area devoted to cash crops (cotton, hemp, tobacco, sugarcane and soybeans) must be kept to the level of 1951. We need to plant more grain. To prevent the peasants from allocating too much land to cash crops, the Ministries of Finance and Trade, together with the local departments concerned, should publicize the public grain quotas for cash crops and the proper price ratios between such crops and grain.<sup>114</sup> At present the public grain quotas for cash crops are set very low. For example, the amount of public grain a peasant pays to grow cotton is the equivalent of only 6 per cent of his cotton crop. We plan to raise this to 10 to 15 per cent, which will prevent the peasants from increasing the land devoted to cotton without, however, inducing them to decrease it.

3. For the next few years China will not have sufficient grain, and furthermore the urban population is steadily increasing. The government will therefore have to set aside a reserve for use in times of shortage and for necessary exports. That means we must purchase grain according to fixed quotas. So long as we make the peasants understand the significance of state purchase of grain, offer a fair price and buy only some of their surplus, we shall be able to fulfil our task. Right now we should make preparations for next summer's harvest. We should try two new methods: having cooperatives mobilize the peasants to sell grain and having local governments impose purchase quotas. We should experiment with these methods in a few places and see how they work. If they prove successful next summer, after the fall harvest we can extend them to the rest of the country.

## V. OUR WORK IN INDUSTRY

1. In 1952 wages will be adjusted according to local living standards and labour productivity. Considering historical circumstances, we shall not introduce a uniform wage scale for all industries (i.e., some occupations being rated first grade; others, second grade, etc.). With the exception of the railways, it is not necessary to unify wages even within an industry. Wages will be adjusted in accordance with the general level of wages in all industries in a given area. As for workers unwilling to go to areas where they are needed, upon the approval of the central authorities they will be given a regional allowance. This adjustment, however, must wait until the democratic reform and the campaign to increase production and practise economy have been launched.<sup>115</sup> Plans for wage adjustment in the localities should be approved by the CFEC. If enterprises meet certain conditions (for instance, they must fulfil their production quotas) and if the adjustment brings most of their wage earners more pay, they can institute an eight-grade wage system.<sup>116</sup>

2. There has been enormous waste in capital construction. Experience has proved that we cannot depend on hope and enthusiasm alone to build a project. Without the necessary preparation and without the assistance of competent cadres, engineers and technicians, our work will come to nothing. All localities must carry out the directives of the CFEC with regard to capital construction. Local financial and economic commissions must sum up their past work in this area and submit reports to the CFEC by the end of February this year.

3. In the campaign to increase production and practise economy,

enterprises should improve management. All departments should set production quotas for the major items produced in their subordinate enterprises and report them to the CFEC by the end of next June. This will oblige the managers to gain a better understanding of the operations of their enterprises and to continue improving their work.

4. As for the state-owned factories and mines under the jurisdiction of the various ministries, the central government will control the planning of their production, their profits, depreciation funds and investments, the allocation of their raw and semi-finished materials and the distribution of their products, their basic administrative procedures and technical measures and the job assignment of their leading cadres and technicians. Political leadership and administrative work in these units will, however, be the responsibility of the greater administrative regions in which they are located.

5. We should redouble our efforts to inventory our assets throughout the country, and share our experiences in this work.

## VI. RELATIONS BETWEEN PUBLIC AND PRIVATE SECTORS

1. Our present policy regarding private factories is to place orders with them for finished products, to buy those products at negotiated prices and to monopolize the purchase of certain ones. We must adhere to this policy, because it helps to prevent capitalists from making exorbitant profits and to restrain those factors in the capitalist sector that may damage the economy and make the people's lives harder. To meet the needs of the country, we should increase the number of different products purchased exclusively by the state. For instance, this year we should gradually monopolize the purchase of machine-made paper, dyed cloth and tyres, buying them in accordance with the stipulations of the Ministry of Trade. At the same time, we should ensure a fair profit for private factories, and if fees<sup>95</sup> and profits are too low, they should be raised as appropriate. We shall continue to protect legitimate private industrial enterprises and to restrict only those that violate the law to make exorbitant profits. In taxing private enterprises, we should adopt different policies for different ones, encouraging industrial enterprises that benefit the national economy and help to improve the people's lives.

2. Cooperatives must expand in a planned way. The number of state-owned retail stores should also be increased and the range of goods they carry expanded, in keeping with our effort to stabilize the market. State stores

should handle a larger proportion of the grain business. So far as essential commodities are concerned, our policy towards private commerce is that the state sector should expand to dominate the wholesale markets and that it should maintain its primacy in the retail markets. Some middlemen who no longer have a role to play will inevitably have to leave the scene, and this will have a positive effect on the economy as a whole. At the same time, after we have gained control of retail markets, we should allow private shops to do more business.

3. We should put a stop to the practice of forcing private merchants to join together to do business. Although at one time it was useful to organize them in this way, it is no longer necessary. We should keep a close watch on those who voluntarily establish such cooperative arrangements among themselves. If they try to monopolize the market, we shall deal with them by economic or administrative means. When the movement against the “three evils” subsides, the Ministry of Trade will hold a conference on administration of industry and commerce to discuss these policies.

4. We should help the workers and other employees who lose their jobs because of the elimination of middlemen. State enterprises, cooperatives, institutions for administration of industry and commerce and labour departments should jointly discuss ways to place them. Right now we should register three types of people: 1) persons whom state enterprises and cooperatives need to recruit (by number and category); 2) persons who will soon become unemployed and need to transfer to other jobs (by number and category); and 3) persons who became unemployed before liberation but have not yet been counted. We should make an overall plan to find work for all unemployed persons, whether they lost their jobs before or after liberation. However, when recommending people for jobs, we should check with public security organs and deal differently with those under surveillance.

## VII. MATTERS REQUIRING SPECIAL ATTENTION

During 1952 we must pay particular attention to:

1. Carrying on the campaign to combat the “three evils” and the campaign to increase production and practise economy.

2. Improving the way in which financial affairs are handled in the localities and in military units and rigorously enforcing financial discipline.

3. Drawing up plans for large-scale economic development and selecting and training cadres for it.

4. Purchasing grain and making an overall plan to allocate and transport it.

In addition, the CFEC, the greater administrative regions and the various ministries should continue to observe the following three rules: exchange information, discuss important matters and share experience. The financial and economic commissions of the greater administrative regions and the ministries under the CFEC must submit comprehensive quarterly reports to the Central People's Government. The reports must be written by the heads of these units and not by their secretaries. Reports on special topics will be delivered at conferences to be held on a regular basis.

## **REPORT ON THE PROTOCOL FOR THE PRELIMINARY DESIGN OF A FACTORY<sup>117</sup>**

*February 4, 1952*

1. The Harbin Aluminum Alloy Processing Plant, which was designed by the Soviet Union in January 1951, will be able to produce 10,000 tons of aluminum alloy each year: 7,000 tons of plate, 1,100 tons of bars, 300 tons of tubes, 300 tons of wire and 1,300 tons of various other shapes.<sup>118</sup> These products will primarily be supplied to the aviation industry, with the remainder going to other industries. This plant, together with the Zibo Aluminum Oxide Factory and the Fushun Aluminum Factory, will help to form China's first industrial complex for the production of aluminum.<sup>119</sup> The Zibo Factory (built during the Japanese occupation and severely damaged during the War of Liberation) will provide the Fushun Factory with more than 20,000 tons of aluminum oxide each year for electrolysis. Together with the nearly 10,000 tons of aluminum oxide turned out by the Fushun Factory itself, 15,000 tons of electrolytic aluminum can be produced. Of this amount, 10,000 tons will go to the Harbin Plant for processing and the remainder will be used for making high-tension wire. When all three factories have been restored, aluminum alloy products can be produced. Preliminary designs for the Harbin and Fushun factories have already been drawn up. Last year we sent a telegram to the Soviet Union through diplomatic channels asking if it would design the restoration of the Zibo Factory for us. But eight months later the Soviets replied that the matter should be dealt with through trading institutions. As a result, no plans for the restoration have been prepared. We must see to this at once.

2. Major workshops and equipment in the Harbin Plant will be as

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One of several such reports prepared in 1952 by Comrade Chen Yun on behalf of the leading Party members' group of the Financial and Economic Commission of the Government Administration Council and submitted to the Central Committee of the Chinese Communist Party.

follows:

a) A casting mould workshop, where a variety of metals and electrolytic aluminum will be fused to make different types of aluminum alloy. Part of the alloy will go to the mangling workshop, the rest to the tubing workshop. Major equipment will include four electric furnaces and four composition furnaces, each with a capacity of seven tons; one gas furnace with a capacity of 15 tons; and four semi-continuous casting machines, two for flat ingots and two for round ingots.

b) A mangling workshop, which will process 7,000 tons of aluminum plate of various types having a maximum width of 1.5 metres. Major equipment will include four groups of manglers of different sizes, sixteen soaking pits, twenty-four annealing furnaces, two reheating furnaces and one heat treating furnace.

c) A tubing workshop, which will turn out 3,000 tons of aluminum alloy products of various types and specifications: 300 tons of tubes, 300 tons of wire, 1,100 tons of round and hexagonal bars and 1,300 tons in other shapes. Major equipment will include six hydraulic presses (one of 3,500 tons, two of 2,000 tons, two of 1,200 tons and one of 600 tons), three tubing machines, three chain-drawing presses, three wire-drawing machines of different sizes and one heat-treatment furnace.

3. Plans for personnel, consumption of electricity and water, and site of the plant are as follows:

a) There will be a total staff of 2,258, of whom 1,768 will be workers, 230 technicians, 145 office personnel, 61 service personnel and 54 security guards and fire-fighters. As for labour productivity, average annual output will be 5.7 tons of aluminum products per worker.

b) Annual consumption of electricity is set at 60 million kwh, with each ton of aluminum products requiring 6,000 kwh.

c) Annual consumption of water for production purposes will be 323,100 tons.

d) The plant will have an area of 33.6 hectares. Factory buildings will cover 9 hectares, or 26.8 per cent of the site.

4. To determine whether the quality and specifications of the plant's products would meet the requirements of the aviation industry, we consulted aviation specialists, who replied that they would.

5. According to rough estimates, the amount of investment and foreign exchange needed for the plant will be the equivalent of 300 billion yuan.<sup>2</sup>

6. Having discussed the protocol for the preliminary design of this plant, the leading Party members' group of the Central Financial and Economic Commission (CFEC)<sup>7</sup> agreed that, since we are inexperienced in building

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modern factories and have wasted large sums in previous capital construction, it is very important for us to examine carefully the construction plans and preliminary designs for every project before giving approval. This is also a process of learning. From now on, institutions in charge of industry and transportation at all levels must not start building factories until their plans have been approved. The leading Party members' group has also decided that if a local government plans to build any new factory worth five billion yuan or more, this should be reported to the Party Central Committee. Protocols for the preliminary designs of all large factories should be examined by the leading Party members' group of the CFEC and then be submitted for the approval of the leading Party members' group of the Government Administration Council<sup>40</sup> and of the Central Committee. The departments concerned should make every effort to examine designs carefully and promptly.

## THE MARKET SITUATION AND RELATIONS BETWEEN THE PUBLIC AND PRIVATE SECTORS

*June 11, 1952*

The following is my appraisal of the market situation.

1. The market is still slow. In February and March it stagnated, and although the situation is somewhat better now, it will be some time before there is a significant improvement. So far as the capitalists are concerned, only 30 per cent of them are doing any business, and they are the small ones. Some people say the big capitalists are beginning to do business again too, but I think they only talk about it and their hearts aren't in it.

How about the state-owned enterprises? In general, they are relatively active, but the lower-level ones—the cooperatives and trading companies below the county level—are doing business at only one-third or one-fourth capacity, half capacity at most. The rest are still busy “fighting tigers” and disposing of long-pending cases.<sup>120</sup> During this period, it is largely thanks to state intervention that the market has been sustained. The state has been placing orders for manufactured goods with private enterprises in the cities and purchasing farm products in the countryside.

From March to May there was some change for the better, but under present circumstances it will still be some time until we see marked improvement. We had planned to move 13,000 railway freight cars a day this year, but actual shipments dropped to a low of 7,000 cars a day. They rose to between 8,000 and 9,000 in April, to 12,000 in May, and have now reached 13,000. Also, this year the planned volume of business for our department stores was 300 billion yuan<sup>2</sup> a day. However, the actual volume was only ¥70 billion at its lowest level, though it has climbed to ¥260 billion since the end of May.

2. There is a shortage of intermediate markets, as can be seen from the mountains of goods that have piled up in state trading companies in

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Speech delivered at a national meeting on united front work.

Shanghai, Tianjin, Qingdao, Guangzhou and other cities. Everywhere there are complaints of inadequate storage facilities. Of the 10 million tons of stockpiled goods, only 2.5 million tons are stored in warehouses, while the rest remain outdoors. Why were the complaints not so loud last year, when there were no more warehouses than there are now? Is it because of an enormous increase in products this year? No, there has been no great increase this year. Although a little more cotton has been harvested and a certain amount of cotton yarn and cloth has been warehoused, by and large the quantity of goods is about the same as last year.

The reason is that there is only one type of warehouse available, instead of two as there were last year; goods are stored only in state warehouses and not in private ones. Moreover, the capitalists are waiting for the movement against the “five evils” to come to an end, so they are not stocking goods at all.<sup>121</sup>

In the cities in early May, commodity prices of state trading companies were higher than those on the market. When we became aware of this, we reduced the difference by half. In rural areas it is the other way around, for both manufactured goods and local specialty products. The fact that market prices are higher than state prices shows that the peasants’ purchasing power has increased. So manufactured goods from the cities can be sold in the countryside.

Manufactured goods do not flow directly from big cities to rural areas but from big cities to medium-sized cities, then to small cities, finally to primary markets. Now, because of the movement against the “five evils”, the flow of goods has stopped in some medium-sized cities, such as Bengbu, Xuzhou, Nantong, Yangzhou, Xuchang and Weixian. On his way from Shanghai to Beijing to attend a meeting, Comrade Zeng Shan<sup>122</sup> visited Bengbu. The market was very brisk there just after liberation, but it has now become sluggish. This is because the 105 biggest stores are doing no business. There are two reasons for this: 1) relations between public and private sectors are strained, and 2) no conclusions have been reached in the movement against the “five evils”.

For a long time we have been aware of the problems in relations between the public and private sectors. On February 22 this year we issued a circular asking state trading companies to place orders immediately with private enterprises for manufactured goods, so as to prevent stagnation in the market. It would be good if new standards could be set for fees<sup>95</sup> paid by the state for products ordered from private manufacturers. If not, we can continue to use the old standards, and at some later date, when new standards are established, any overpayment or underpayment we have made can be

adjusted. This directive from the Central Financial and Economic Commission<sup>7</sup> is being carried out everywhere, and Shanghai, in particular, has worked out a detailed plan in this regard.

The capitalists have nothing to worry about so far as relations between public and private sectors are concerned, but we haven't been able to convince them of that. The main reason is that they still disagree with the movement against the "five evils"; at heart they deeply resent it. It will be hard for us to solve that problem, but we can proceed with the easier problems first. In other words, we won't talk about the movement for the time being; we'll just try to help them by placing orders with them and lowering their taxes.

3. The proportion of state-owned commercial enterprises has increased. The increase was necessary, but it was also forced on us. How so? Because as soon as the movement against the "five evils" was launched, the capitalists ceased doing business. If the number of state-owned commercial enterprises had not increased, if orders had not been placed with factories and if people had not been sent to the rural areas to purchase the specialty products, nobody would have had money to buy manufactured products, and the whole economy would have come to a standstill. The peasants would have cursed us and workers would have lost their jobs.

Yesterday we received a telegram saying that peasants in the hometown of Comrade Wang Jiaxiang<sup>123</sup> in southern Anhui Province had disbanded the local cooperative because its purchasing price for tea was too low. As a matter of fact, this year's price is slightly higher than last year's. If the state hadn't purchased the thermos bottles, leather belts and other goods produced in Tianjin and elsewhere, the workers there would have protested just as the peasants did in Anhui. So the state had no choice but to increase its purchases, thus increasing the proportion of state-owned commercial enterprises.

This situation will change as soon as private enterprises resume business. In the last few days changes have already taken place: in Beijing business in state-owned department stores has fallen off. We have a percentage for the appropriate volume of business for state-owned commercial enterprises: last year the volume was set at a little over 19 per cent of the total; this year it was raised to 24 to 25 per cent. We should try to keep to this percentage.

4. Among five types of our personnel—collectors in tax bureaus, loan officers in banks, purchasing agents in enterprises and inspectors of goods in trading companies and customs offices—the prevailing mood is that it is better to be "Left" than Right. These people never used to work very hard, but now that "tigers" have appeared, they have begun to take their jobs

seriously. The purchasing agents and trading company inspectors apply extremely strict specifications and very high standards, with the result that as much as 60 to 70 per cent, sometimes even 80 per cent, of the goods are declared “substandard”. In one place in Shanghai pingpong balls were being examined one by one with microscopes. Is that reasonable? Of course not. Generally, the proportion of substandard goods should be less than 10 per cent. If it’s any higher, the factory should shut down.

Should we criticize these people severely? No, they are already reluctant to do their work as it is, because they are afraid of being labelled “tigers”. As a result, they don’t dare go to market, talk with capitalists or even answer the phone alone, without witnesses. Why? Because they know of others who have met their downfall through working hand in glove with capitalists, and that frightens them. They don’t even want to continue in their present jobs, and they ask for transfers. Moreover, it would not be fair to criticize them, because we cannot set new detailed standards for examining goods. We should tell them that it would be wrong for them to act like “tigers” and it is right for them to make a clear break with the capitalists, but that in correcting past mistakes they have gone a bit too far. That is the situation in the lower units.

What about the higher units? A great many people from these units have come out to “fight tigers”, and those who stayed behind have just “come downstairs”, many of them not fully excused and unprepared, wearing only their shorts.<sup>124</sup> The movements against the “three evils”<sup>112</sup> and the “five evils” involve many organizations. In particular, as soon as the movement against the “five evils” was launched, large private factories stopped ordering goods from small and medium-sized ones. Those goods then had to be purchased by state trading companies, which therefore could not afford to buy the less important industrial products or local specialties from the countryside, such as dates, walnuts and medicinal plants. Although some people may have entered the movement unprepared, I think they have been able to maintain production pretty well.

This shows that the country’s economy is stronger than before. If the movement against the “five evils” had been launched in 1950—which, of course, would have been inconceivable—the economy would not have been strong enough to sustain the market. And if the economy were not as strong as it is now, it would be out of the question for us to purchase pork, eggs and other goods from rural areas while at the same time carrying out the movement against the “five evils” and maintaining production.

There is no doubt that the market will thrive eventually, but it will take some time for it to return to normal. Why? Because the relation between

supply and demand remains the same. Last year supply fell short of demand and all products could be sold. Purchasing power has not decreased today; on the contrary, it has risen. Production has increased too, but only slightly. Furthermore, purchasing power will rise again this year. This can be seen from the following three factors: 1) Agricultural production has been good. The wheat has now been gathered in, and the harvest was better than last year's. The autumn harvest also looks promising. Thus, the peasants' purchasing power will increase. 2) The state budget provides for more expenditure than last year. This is very important. Most of the expenditure will be for domestic purposes, only a part being used to import goods. Accordingly, it will flow into the market, thus increasing purchasing power. And 3) The prices of manufactured goods are quite different in urban and rural areas. Because most private merchants are now busy participating in the movement against the "five evils", only a few are taking manufactured goods from the cities to sell in the countryside. But the peasants are badly in need of these goods, and if there are people transporting them to the countryside, the peasants will buy them.

On the whole, we can see that although a large number of capitalists are choosing to wait and see what happens, and although it is hard for the state-owned commercial enterprises to keep the market going, trading will become active. Of course, it will take some time to bring this about.

Next, I should like to talk about problems in the relations between the public and private sectors and about what we can do to solve them.

After the movement against the "five evils", the capitalists should return any ill-gotten gains and pay any overdue taxes. This process should be handled in an appropriate way. In the beginning, the total amount of such payments due nationwide was calculated to be more than ¥30 trillion. Many people said, "This time the Communist Party is going to make a fortune; it will get a lot of money out of just this one idea." As a matter of fact, we have not received one yuan yet. Moreover, the tax receipts for the first quarter of this year were ¥5 trillion short. However, we have obtained large sums of money by other means. By the end of April the Ministry of Finance had on deposit ¥10 trillion. Since people have all been busy "fighting tigers", no one has dared spend money on capital construction or use the funds budgeted for expenditure. This is the first time that has happened since the founding of the People's Republic. We have also been able to save some money by economizing.

In settling accounts with capitalists for the "five evils", have we overestimated what they owe us? Have we been counting our chickens before they were hatched? It seems so to me. In Bengbu there are 150 industrial and

commercial enterprises with a total capital of only ¥1.5 trillion. But the amount they owe the state for ill-gotten gains and back taxes is ¥3 trillion. The sums due for the “five evils” of a few factories in Zhejiang Province exceed their total income from orders placed by the state. If our estimates are too high, no one will take them seriously; then I am afraid we shall get nothing, even from those capitalists who are most guilty of the “five evils”.

We must review the figures and reduce them to realistic amounts. The comrades who are “fighting tigers” may not agree with what we are doing; they may resent our reducing the amounts they worked so hard to calculate. But if we don’t do that, we shall lose our credibility. At the same time, we should establish an office to handle appeals by capitalists who think their sums have been overestimated. We should treat the capitalists better, allowing more time for them to return their illegal profits and pay their back taxes. We should try to ensure a healthy market before collecting taxes, and collect current taxes before back ones. First, we must have a thriving market if we are to collect taxes. Second, we should collect current taxes before trying to collect payments in arrears.

Tax collection is of paramount importance; we must make it a sacred task and tolerate no violation of relevant decrees. If the Ministry of Finance has no money, we can accomplish nothing. So if we cannot collect all the back taxes owing, we should try to collect a part of them, or if necessary postpone collecting them until next year, but in either case current taxes must be collected. According to rough estimates, back taxes may come to ¥4 trillion, while current taxes should total ¥70 trillion. We should postpone the effort to collect the relatively small amount of back taxes and concentrate on the much larger amount of current taxes; when business picks up, we may be able to collect the ¥4 trillion. If we reverse the order and concentrate first on the smaller sum, we may lose the larger.

Now I want to talk about the fees that the state pays private enterprises for manufacturing goods. Last year when I made a report on behalf of the Central Financial and Economic Commission to the National Committee of the Chinese People’s Political Consultative Conference, I said that the fees should be raised if they were too low and lowered if they were too high.<sup>125</sup> What I said then still holds. Some capitalists say, “We are supposed to make a legitimate profit, but we still don’t know what that is.” We can answer them as follows. A legitimate profit for manufacturing goods might be 10, 20, or 30 per cent of the fees paid by the state. However, we do not say it can be between 10 and 30 per cent, because that would allow units at lower levels to decide on the fees arbitrarily, they would just set an average of 20 per cent. For manufacturing some goods, the profit should be less than 20

per cent, while for manufacturing others it should be more. We should determine the rate of profit according to production costs, market prices and social demand.

Would this range of profit be appropriate to industry as a whole? I think so. If people ask whether industrial profits can be a bit higher than 30 per cent, I should say that they can, so long as this conforms to the state regulations and so long as prices are compatible with people's purchasing power. It would be impossible to keep all profits within the 30 per cent limit. If only one enterprise produces certain goods that are in short supply and people are willing to buy them, we cannot prohibit the enterprise from selling them simply because its profits exceed 30 per cent.

How about commercial profits? First, the state policies regarding trade and the provisions of the Common Programme<sup>78</sup> must be adhered to. Second, as a general rule, commercial profits should not exceed industrial profits, but there will inevitably be exceptions. For example, take certain specialty products from the countryside. Since the peasants themselves cannot market them, merchants buy low and sell high, with profits exceeding 30 per cent. Is this legitimate or not? We should recognize that it is. But speculation and profiteering are prohibited.

As for the specifications for finished goods produced by private enterprises for the government, it is hard to standardize them. Since different goods are produced in different localities, each city should be responsible for drawing up specifications. During June and July, under the guidance of local bureaus for industry and commerce, local governments should negotiate specifications for finished products with capitalists, so that the persons in charge of inspecting goods will have fixed standards to go by.

How much of the price we pay private enterprises for manufactured goods should be paid in advance? The capitalists want 70 per cent, but that is impossible. The highest proportion can be only 30 per cent, which is still quite high. That will make it possible for them to produce. We should not make total payment to capitalists in advance, because we may be cheated—that has happened in the past.

Now a few words about the question of the government's placing orders with small and medium-sized factories. There are so many of these that it is still impossible for us to buy the products of all of them. Some of the backward ones will go bankrupt. For example, some of the socks produced in Beijing are of such poor quality that you can easily poke a hole in them with your finger. The state trading company has bought 170,000 pairs but cannot sell them; that is simply a waste of raw materials.

We should encourage the production of well-known brands of goods,

such as Bell 414 towels and Guben soap made in Shanghai. Customers prefer well-known brands. When prices went down on May 1, shoppers crowded into the Wangfujing Department Store in Beijing. In spite of repeated warnings over the loudspeaker that there was no need to push, in the crush of people more than twenty glass display cases were broken. At the same time, although private shops nearby were selling goods of the same quality as those in the department store and at lower prices, they had few customers. That was because people trust department stores, feeling that if they buy there they will not be cheated.

I myself had an experience of the same sort. In my early days in Shanghai I was working in a bookstore jointly sponsored by the World Book Company, the Zhong Hua Book Company and the Commercial Press.<sup>126</sup> A customer wanted to buy a child's schoolbag and asked how much it cost. I said one yuan. He said that for one yuan he would prefer to buy it at the Commercial Press. As a matter of fact, although the bags were of different brands, they were made of the same material, but the customer insisted that the ones sold at the Commercial Press were better.

People are justified in demanding brands they trust, and we should not change their names. The main problem today is that no one is concerned about building up consumers' faith in a product. This is particularly true of cigarettes. The first production run may be of good quality, but it's hard to tell what the second and third will be like. This is very bad. We should encourage the production of trusted brands of goods, without, of course, neglecting the others. Shanghai once merged the small, unknown towel factories and used the Bell 414 brand name for all their products. If you manufacture poor products under another firm's name and damage its reputation, that firm will protest.

Let me turn now to the question of export trade. Private merchants find it hard to export goods, because at present only importing is profitable, not exporting. They therefore have to sell their goods to the state trading companies, which allow them a profit. The state companies then make up their losses in profits from the import trade. We should give preferential treatment to private merchants.

Nevertheless, we should also consider competition on the international market and our relations with the peasants at home; both of these are more important than our relations with private merchants. If our domestic prices of local specialties rise with international ones, the peasants will produce more of them. They will not heed our call to reduce production, because they decide what to produce on the basis of what will make money. Decision-making about agricultural production in our country is still decentralized. For

instance, we said that the area devoted to cotton should not be increased and warned that a drop in grain production would be dangerous. But the amount of farmland devoted to cotton still expanded by several million *mu* [1 *mu* = 1/15 hectare]. What should we do? We have to find a way to deal with this through our pricing policy. That is, when we purchase cotton this year, we should not raise the price. We have to regulate production by means of pricing. If our prices fall with those on the international market, there will be other problems, and our trading companies and cooperatives will collapse. We cannot adopt capitalist methods in buying rural products. We must allow the peasants a certain transition period during which to change from growing one thing to growing another. So we cannot set domestic prices by following those on the international market.

If the price of certain goods on the international market—hog bristles, for example—is too low in May, we shall not sell them at that time. People who want to buy those goods from us will have to wait until June or July. We are not anxious to sell, because we have enough money. If we follow the prices on the international market and lower the prices of export goods as foreign capitalists do, we shall lose the initiative and they will make more profits. Meanwhile, the peasants will be dissatisfied, and the state will suffer losses.

Is it difficult for private merchants to do business? Yes, it is. For example, there was not much coarse grain [corn, sorghum, millet, etc.] last year, so the people of Beijing and Tianjin were asked to consume more wheat flour. Since the flour was sold at ¥50,000 per sack, which was cheaper than coarse grain, no one wanted to buy the latter. How much did the state trading companies lose? Twenty-five thousand tons of grain. But if we had just let private merchants handle this business, the market would have been in turmoil, with long queues for coarse grain. The harder it is to buy something, the more eager people are to buy it, and that leads to chaos. Which is better, order or chaos? Order, of course. If we had not done what we did, prices could not have been kept stable.

We could make a profit by buying grain in the autumn, when the price is low, and selling it at a higher price in April, May and June the following year. But we cannot do that. For the most part, prices should remain the same all year round. So, where does the money to purchase grain come from? It comes from bank loans. The state trading companies have to pay interest as well as fees for storing grain. Private merchants cannot afford to do that, so it is hard for them to stay in business. Can we give in to them? No, there would be chaos. In short, our relations with private merchants are less important than our relations with the peasants and than our position in

international competition. If conditions permit, we shall consider all these factors, but if not, only the most important one.

Now about the proportion between state and private commercial enterprises and the transformation of business. This year the proportion of state-owned commercial enterprises is set at 24 to 25 per cent, as against 19 to 20 per cent last year, and we must maintain this percentage. Private trade will both expand and contract; some merchants will do more business, while others, who do not meet people's needs, will close their doors or switch to other products. This is an old question that we also discussed last year. When the question of whether private merchants could change from one line of business to another was raised in 1950, we could not give an answer, but now we feel confident enough to do so. I would say they can deal in a great many different types of products, such as iron and steel, industrial and scientific equipment, petrol and so on, all of which are bound to be profitable. The merchants themselves see this clearly. What, then, is the problem?

The problem is the unemployment that will be created, and it cannot be solved in the near future. We have not yet solved China's unemployment problem, and there is no quick and easy way to do so. We have calculated that the daily volume of business handled by one clerk in a state department store equals that done by five persons in a private shop. This means we can give jobs to only two out of ten unemployed people from private shops. Again, if we were to set up a tea company in Beijing, many tea shops would shut down. Another example: suppose a husband and wife open a small shop that closes at times when business is slack. If we were to employ the couple during the periods when their shop is closed, what sort of job could we give them? This problem is not easy to solve. We cannot place everyone.

Now I should like to talk about the bank interest rate. The interest rate should be lowered to help industry and commerce expand. The current rate is 3 per cent per month, or 36 per cent per year, which is so high that industry and commerce cannot function. Capitalists would rather deposit their money and earn interest on it than borrow to invest in industry. How much should the interest rate fall? It should drop to about the level that was normal before the War of Resistance Against Japan, or slightly higher. We should reduce the monthly rate to, say, 1 per cent or a little more, or the annual rate to 10 to 15 per cent. That would help promote the development of industry and commerce, because capitalists would be willing to launch new enterprises and expand old ones. In addition, it would help ease the strain on the finances of state enterprises, because with the capitalists investing in private enterprises, they would no longer need to do so themselves.

The joint state-private banks throughout the country have a combined

staff of some 12,000, and privately owned banks have more than 7,000, making a total of over 19,000. In the past the private banks made a profit through the difference in interest between deposits and loans. Everyone on the staff in these banks received a very high salary, equivalent to the income of one of our mayors, ministers or bureau directors. Now that the interest rate is to be lowered, the profits of private banks will drop and a large number of them will certainly close, putting many of their staff out of work. But we can test and hire only part of the unemployed staff, and those hired will receive only wages and benefits in accordance with our standards. We are now applying a system of low wages, so people taken from private banks cannot receive high salaries.

Why wasn't the interest rate lowered sooner? First, last year prices had been stabilized for only a short time; if interest rates had been lowered, bank deposits would have decreased, and merchants would have withdrawn money to buy goods on the market. Today that is no longer a danger. Second, we feared that private banks would close too quickly, causing increased unemployment. Now even if all the 7,000 employees of the private banks were to lose their jobs, the problem would not be too serious. Anyway, they would not all be unemployed, because some of the private banks would continue to operate and we ourselves can hire 700 people.

Now I want to turn to the question of taxation. We have had controversies with capitalists all along over this question. There was not much grumbling over the commodity tax<sup>52</sup> (formerly called the factory exit or general tax). Nor were there many complaints about the business tax, which is now included in the industrial and commercial tax.<sup>53</sup> This tax is calculated as a percentage (now usually 1 to 3 per cent) of the volume of business, which, since we instituted a uniform system of sales receipts, is determined on the basis of those receipts. But there have been many disputes over the income tax—not so much over the principle of such a tax, but over its technical aspect, that is, the way in which individual assessments have been made. Disputes should be settled through reassessment. The tax bureau now has a special committee to handle complaints, so if people think they have been unfairly taxed, they can present their cases there for reconsideration. Our guiding principle is to collect all the money that should be collected, and not one yuan more. We should act in accordance with this principle.

We must not leave any holes through which tax evaders can escape. If we are careless enough to provide one, the capitalists will widen the breach and start pouring through. For example, people who do not pay their taxes on time are supposed to be fined at the rate of 3 per cent for each day's delay. This fine cannot be waived, or there will be nothing but trouble. We

have a regulation that taxes should be paid first, regardless of any disagreement over the amount, and those who refuse to do so should be fined. Payment may not be delayed because of a controversy; otherwise the capitalists would argue with us day after day and we would never collect any tax. We cannot make any concessions on this matter.

Should the stamp tax on sales receipts, etc. be repealed? This tax, formerly called the certificate tax, is, in fact, a petty business tax. In 1950 representatives of the capitalists in Shanghai suggested that it be repealed, but we said it should be retained, because the country was still in difficulties. This tax has another function—it can be used to calculate the business tax and thus prevent tax evasion. That is just what the capitalists are afraid of. We should therefore maintain it.

There should also be regulations governing the wages of workers in private factories; in general, their pay should not exceed that of workers in state factories. Otherwise when the capitalists present their accounts, they will report that all their profits went into wages, so they owe little or no tax.

The capitalist sector is still one of the five sectors of the national economy.<sup>77</sup> So long as it exists, the capitalists will disagree with us over various policies, especially our tax policy, which is of great concern to them. There will inevitably be minor and even major disputes over taxes, and we must be prepared for them.

Taxes are the main source of revenue for the state, accounting for 50 per cent of the total (the remainder consists of 30 per cent from state enterprises, 15 per cent in the form of public grain,<sup>18</sup> and 5 per cent from other sources). If something goes wrong with tax revenue, the finances of the entire country will be threatened. Because of the different methods of tax collection, there are also problems of undertaxation and overtaxation.

At present there are three ways of determining the amount of taxes an enterprise should pay: 1) by having tax collectors examine the books, 2) by having representatives of enterprises discuss the matter democratically with the collectors, and 3) by having the collectors classify small enterprises and fix an amount for each category. Can we use only the first method, as private merchants have asked us to do? I don't think so. In Shanghai, for example, there are 2,000 enterprises whose taxes we assess in this way—these account for 60 per cent of all taxes collected in the city—and several hundred thousand whose taxes we assess by determining categories. If we were to examine all their books, what an army of people would be required for the job! We could never do it properly. I have especially solicited opinions on this question from provincial and municipal Party secretaries. I told them that there are three possible methods and that so long as they collect the

money, they may use any of them. They said they didn't want to increase the number of businesses whose taxes are assessed by examining their accounts, because although they are small they are many, and each keeps its own books. How can we examine all of them? They can always outwit us. So the number of businesses whose taxes are determined this way should not increase.

We shall continue the practice of democratic discussion, in which each businessman speaks for himself and others make the assessments. If someone disagrees with their decision, his case can be reviewed. Of course, there will still be undertaxation and overtaxation, and frequent arguments. If we are even a little unreasonable, the capitalists will raise a hue and cry throughout the country, while saying nothing about their tax evasion. No matter how good our methods are, they will still evade taxes. As long as the bourgeoisie exists, it will be impossible to eliminate this problem.

Some comrades ask: they make such an uproar, what are we to do? The answer is: if what they say is right, we should take it into account and correct our mistakes. But we should be clear that for the most part, the taxes we have collected are appropriate. In Hankou, for example, the income tax we collected last year came to nearly ¥200 billion, which was supposed to represent 25 per cent of the capitalists' total income. By that calculation their income would have been ¥800 billion. How much did the capitalists in Tianjin make last year alone? Our estimate was ¥2 trillion. And how much did we collect in taxes? Just ¥300 billion. Again, if the tax rate is 25 per cent, that means their income was ¥1.2 trillion. Is that all they earned? I don't think so.

You may ask if the state's taxes aren't too heavy. Someone raised this question in 1950, and I replied that they were not light. That should be our answer, because it is not good for us to call them either heavy or light. Things in this world are strange indeed. We copied all our tax rates from those of Kong Xiangxi<sup>127</sup> and even lowered them to some extent, but we have collected more taxes than the Kuomintang did. Our annual tax receipts amount to 2.3 billion silver dollars.<sup>12</sup> Before the September 18th Incident, the KMT collected no more than 800 to 900 million silver dollars a year throughout the country, including northeast China.<sup>128</sup> We used their tax rates and we even reduced them, but they collected less than we did.

That's why the capitalists in Shanghai began saying that the KMT was complicated but simple, while the CPC was simple but complicated. The KMT had too many tax regulations. They seemed complicated and difficult to deal with. In fact, however, they were very simple, since the capitalists could get around them through bribery. On the other hand, the Communists,

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whether they are in banking, industry or taxation, are all from villages and look simple, like country bumpkins. They are very serious about their work, however, and decide everything through discussion at meetings. And of course, as soon as you hold a meeting things become complicated.

The situation at present is that the capitalists are waiting to see what will happen, and some of the workers are tending towards “Left” deviation. They thought that with the launching of the movement against the “five evils” and the campaign to “fight tigers”, socialism was at last drawing near. Now that these movements have stopped halfway, they are disappointed. We should explain to them the reasons for this. As for the unemployed workers, we should provide them relief and prevent them from making trouble. The relief will not cost much, and as soon as the market has revived they will find jobs.

## THE NEED TO TRAIN GEOLOGISTS

*December 4, 1952*

In 1953 China will start large-scale economic development. To meet the country's needs there will have to be a major change in our geological work.

In the past, geological work has been carried out haphazardly, without any overall state plan. But from now on things will be different. The purpose of our geological work is to locate, within a given period of time, certain underground reserves that are needed for economic development, particularly for the iron and steel, nonferrous metal and fuel industries. This work has become one of the most important undertakings for China's economic development.

Next year from eleven to twenty-four times as much geological work will be done as this year: drilling will increase eleven times, pit prospecting twenty-one times, trenching twenty-four times, and the area surveyed eleven times. In the following few years there will be even more work to do. If we are to accomplish our tasks, next year most geological workers will have to participate in the general survey, prospecting and other field work. Although many people have already taken part in field work, many others have had desk jobs. Next year we must change that.

To accomplish the enormous amount of work ahead of us, we have to train more geologists. In northeast China, Beijing and other localities, several thousand geology students have been enrolled who will be able to go to work after from one to four years of study. Such a large contingent of geologists is unprecedented in China's history. We must use advanced teaching methods to train them. We expect a great deal of them, hoping that as soon as they graduate, they will begin to take part in national reconstruction. Their training is an important task both for China's geologists and for the Ministry of Geology.

Large numbers of geological workers are participating in field work and

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Speech delivered at a national conference on geological work. It was published in *People's Daily* on December 19, 1952.

many new ones are being trained. This indicates that a great change is taking place in our country. We are moving from economic disruption and stagnation to large-scale development and from being backward to being advanced.

Of course, the geologists face many difficulties, just as workers in other departments do. The major one is that there are so many things to be done and so few people to do them. It would be wrong for us to deny this difficulty; we must face it squarely and try to overcome it.

There are two possible ways of dealing with this problem.

One is to set the geological tasks according to the existing manpower. Should we adopt this policy? No, because it would retard geological work and the development of the iron and steel, nonferrous metals, fuel and other industries, thus delaying our industrialization. Basically, it was because China was economically backward that for several hundred years the country was oppressed by foreign powers. Although the whole country has now been liberated and a people's democratic regime has been established, unless we begin large-scale economic development, our victory in the revolution will not be secure. In deciding on the policy for geological work, therefore, we should not consider only the current difficulties facing geological departments; first we should consider the country's needs. In other words, our first concern must be to accelerate the nation's economic development.

The other policy we could adopt is to try to fulfil the state plan in accordance with the country's needs. If we don't have enough manpower, we should think of ways to increase it. The conclusion of our discussions here was that we should adopt this policy. True, it will not be easy. Nevertheless, to meet the needs of economic development, this is what we have to do.

How can we increase our manpower? We have three means:

1 *Training more personnel.* The principal way of increasing manpower is to run schools and training courses. We need graduates from universities and senior middle schools, but there are not enough of them. So we might also consider recruiting graduates of junior middle schools and giving them one or two years' training that would enable them to do simple work. At the same time, we should have professional geologists take on apprentices, so as to train large numbers of cadres. This has to be done, because it is the only way we can rapidly increase our capability in this area.

2 *Making proper use of trained personnel.* Since geologists are few and scattered, it is all the more necessary to use them properly. How can we do this? In the following ways:

Through centralized nationwide control, geologists should be appropriately distributed according to the needs of the state. Starting next year,

the revenue of all departments in charge of financial affairs throughout the country will be turned over to the Ministry of Finance, and all local factories of a significant size will be put under the administration of central authorities. In the same way, the placement of geologists should also be handled exclusively by central authorities. So every comrade engaging in geological work should be prepared to serve the needs of the country and to go where he is sent. Departments in charge of geological affairs should also be prepared to move to other localities if necessary. That is the only way we can coordinate the work and make the best use of personnel.

Both new and veteran geological workers should be properly organized. Some teams doing field work are composed entirely of veteran workers; others, entirely of new ones. We must change this by assigning experienced workers to different teams, which will enable them to take on more apprentices. Training apprentices is troublesome, but when it is for the sake of the country and the people, we must not be afraid to take on troublesome tasks.

We should assign the right proportion of comrades to field work and to office work. We should place them where they are most needed.

We should use veteran cadres in geological departments properly, enabling them to share the work and cooperate with technical personnel. The technical personnel should be mainly responsible for professional work, while the cadres should do more administrative work. In that way they can all play their proper roles. It is a waste of manpower for geologists to spend their time on administrative work. Of course, administration is not simple either, and it involves many matters. But if we entrust this work to experienced cadres, they will do it well. Should they also learn about geology? They should, and if they study long and hard they can master it.

*3 Raising the technical level of existing geological workers.* I should like to say more about this, because it is very important. It is true that in the past two or three years the geologists have accomplished something. And for several decades before the founding of the People's Republic, they also made their contributions to the motherland. But we must be aware that the work we have done is insufficient to meet today's needs. It falls short of the country's requirements in two ways: 1) there are still not enough geologists; and 2) we have done much research but little practical prospecting, so that our work has been lopsided. We must acknowledge that there are too few geologists and that those we have are not as competent as they should be. This is no fault of theirs. Nor is it because China is unable to train capable geologists: the problem has been the unfavourable environment. Now the geologists are shouldering a great responsibility. They should stand with the

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people, recognize the great responsibility they bear and try to raise their professional level so as to meet the needs of economic development.

How can existing geologists enhance their ability? They must be determined to study hard. There are three ways to learn.

First, we should regularly review our experience and draw lessons from it. We should learn both from success and, particularly, from failure. This will help us make fewer mistakes. It is impossible for anyone to work without ever making a mistake. Some people simply feel ashamed at having made a mistake, but others regard failure as the mother of success and try to learn from it. Obviously, that is the correct attitude. The Ministry of Geology should hold two or three meetings every year to sum up experience and draw lessons from failure. This should also be done at every construction site and work post. To learn from one's mistakes, one must overcome the tendency to conceal them. This tendency exists both among technicians and among Party members, and it is harmful to their work and to themselves. The more people try to conceal their mistakes because they are afraid of losing face, the more they will lose face. But when people admit their mistakes and incompetence, they very probably will not lose face in future. There is nothing surprising about our incompetence; it is the product of China's historical conditions. The way to make progress is to recognize this point and move on from there.

Second, we should learn from colleagues and from people at higher and lower levels, particularly from those at lower levels. *We* should regularly hold discussions and make it a practice to consult with each other whenever necessary. When you propose a plan, don't be afraid of being censured, because only through discussion can we improve on it and make progress in our work. Right now it is rare that we talk things over with each other, and even rarer that we learn from people at lower levels. That has to change.

Third, we should learn from the experience of the Soviet Union. Some people say that China too has a high level of culture and has given the world outstanding scientific inventions. Of course, this cannot be denied. But these accomplishments are like things stored in a warehouse: they will not be lost just because we learn from other countries. We should first study those areas we have not yet mastered.

To learn, we have to get rid of the fears and prejudices standing in our way. We should face reality and be honest. In considering problems, we should not act according to personal interest but according to the demands of national economic development. We are confident that so long as we study hard, outstanding trained personnel will emerge in the field of geology.

We must seize every opportunity to help technical personnel upgrade

their skills. In the past there have been shortcomings in the work of administrative leaders. On the one hand, they underestimated the importance of the work of technical personnel, didn't support them, didn't encourage them to work hard and didn't take every opportunity to help them study and progress. On the other hand, they didn't criticize the mistakes the technicians made. These shortcomings have been harmful both to the technicians and to their work, so they should be corrected.

When carrying out the enormous task of economic development, we shall surely make mistakes in our work. In the course of our effort we may also come up against sabotage by counter-revolutionaries, so we must sharpen our vigilance. But we must make a distinction between counter-revolutionary sabotage and mistakes made in good faith. That is not very difficult. We can judge from such factors as a person's history, his work experience and his general attitude towards work.

Mistakes in our work can be divided into two types: those that are made through carelessness, and those that are made in the course of experimenting with new things. We should help people to learn from their mistakes, encourage them to continue to make progress and not allow them to become disheartened.

We recognize that next year's work will be difficult. We should make ourselves more capable by learning from other colleagues, from people at lower and higher levels and from our own successes and failures. In this way, difficulties can be overcome. You comrades have heavy responsibilities. I hope that you will work hard to fulfil the great tasks entrusted to you by the motherland.

## THE PROBLEM OF UNEMPLOYMENT IN SHANGHAI

*December 5, 1952*

We have received your letter concerning the problem of unemployment in Shanghai. It is good that you have informed us of the new situation and raised new questions.

Unemployment in Shanghai is indeed serious. For the past three years, under the leadership of the East China Bureau of the Central Committee the Municipal Party Committee has been very successful in finding jobs for the unemployed and providing money to help send back to their hometowns those who have come to Shanghai as refugees.

There are historical reasons for the high rate of unemployment in Shanghai. During the long years of war, Shanghai was a fairly stable city where it was easy to earn a living, and it attracted many people from other places, including a steady stream of fugitive landlords and counter-revolutionaries. After liberation, certain trades that had prospered by catering to the luxurious tastes of the imperialists and the bureaucrat-comprador bourgeoisie simply disappeared. During the economic restructuring others will do so too. Therefore, for a short period high unemployment in Shanghai is unavoidable. Judging from the general trend, it will be hard to solve this problem until large-scale economic development is initiated nationwide.

So far as ways of dealing with the problem in the meantime are concerned, we have studied your report, but we cannot say we have a thorough understanding of the situation. So the following are only tentative suggestions for you to consider.

First, we have asked the various departments concerned to determine, according to their projected personnel needs, how many strong young workers in Shanghai they wish to enroll in training programmes. The number of workers you suggest be trained in the building trades (100,000 instead of the 40,000 originally proposed) is too high; it exceeds the needs of the

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Letter to the leading members of the Shanghai Municipal Committee of the Chinese Communist Party, drafted by Comrade Chen Yun on behalf of himself and Comrade Bo Yibo.<sup>38</sup>

departments in charge of construction. As for the child apprentices, you might employ them in groups or ask joint state-private enterprises to take them on, and you might try to find temporary jobs for the unemployed as a form of relief. These measures should be coordinated.<sup>129</sup>

Second, as for vagrants, hooligans, army riffraff, gang leaders, home-going legions and counter-revolutionaries, they should be dealt with according to the plan of the Ministry of Public Security.<sup>130</sup> Until some decision is made about them, it would be better not to put these people together. Before any of them are sent to cultivate wasteland and remould themselves through labour, you should make sure that the localities to which they are going are able to receive them. They should not be sent off in haste.

Third, we agree that to reduce additional unemployment, Shanghai's current industrial production should be maintained insofar as possible. However, we have to take into account production in other parts of the country; otherwise some people will be getting jobs in Shanghai while others are losing theirs elsewhere. After the readjustment of commerce, there should be more jobs for shop assistants. You suggest that state-owned commercial enterprises assist small shops that serve a useful function but are having difficulty surviving by allowing them to act as their agents and sell goods on commission. That would not be a good idea, because it would place too heavy a burden on the state enterprises. With regard to industry, we agree with your suggestions in principle. When placing orders for manufactured goods in accordance with the plans of the ministries, insofar as possible, we shall give special consideration to privately owned factories. We shall also try to ensure that they have a sufficient supply of raw materials. In short, we shall deal with as many of these matters as possible. The problem of unemployment is closely related to economic development, but we cannot treat the two things as of equal importance; that is, we cannot adjust our plans for economic development to solve the problem of unemployment. Of course, professional departments should pay attention to your request that while carrying out plans for the development of the state-owned sector of the economy, they bear in mind the potential problem of unemployment in the private sector and make preparations beforehand.

Fourth, it will not be easy to solve this problem, because Shanghai is a big city with an influx of population from many places and, as experience has shown, while one group of people is being sent home, another group is coming in. You should find some way to stop this large influx. Right now, you can at least suggest that local Party committees criticize those comrades who unthinkingly encourage peasants to go to the city to seek jobs, and that the committees dissuade the peasants from doing so.

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Fifth, to encourage workers and the unemployed in Shanghai to move farther inland, the government is planning to raise wages in enterprises that need to be expanded in certain areas of the interior. Meanwhile, wages in Shanghai should not be arbitrarily increased.

Sixth, relief should be arranged for the unemployed as a temporary solution, but training courses should be organized for them only after careful consideration. Unless you are prepared to employ those who complete the courses, they should not be offered. You could establish temporary criteria for eligibility for relief in addition to the standards currently in effect. Please study this possibility in light of the actual conditions and try to solve the problem. Shanghai still has a relief fund of about 50 billion yuan,<sup>2</sup> which should be more or less sufficient. Any shortage can be made up by using for relief part of the funds that have been set aside to help find jobs for the unemployed. Next year you can continue to collect the tax for unemployment relief. The office dealing with employment, which has four thousand staff members, is too large and should be greatly reduced. A small organization can be established to do this work, and its staff should be included in the authorized quota of personnel for municipal organizations.

Please consider the above views and let us know what you think of them.

## THE SYSTEM FOR DISTRIBUTING GRAIN

*June 25, 1953*

With regard to the control of grain supplies, I think we should keep to the present method, but we must correct shortcomings in our work and allow the local authorities a little more flexibility. If we replace the system of centralized planning and distribution with one under which those functions are shared by the central and local authorities, then the greater administrative regions<sup>11</sup> and provinces, which are primarily concerned with meeting their own needs, will inevitably want to ship out even less grain when they have a surplus and bring in even more when they have a shortage. This is likely to have two consequences:

1. The amount of grain turned over to the central government will fall short of the target, which will limit our ability to act.

2. Since one party wants more grain than the other is willing to supply, the regions will be unable to reach an agreement, and the central authorities will still have to make the decisions about distribution. Blockades may even be instituted between regions (as happened in northern Manchuria<sup>31</sup> in 1948 and between Jiangxi and Zhejiang provinces in 1949). This will throw the market into turmoil and probably lead to even more serious consequences.

If, however, the current Conference on Financial and Economic Work, or the central authorities do decide to institute a system of joint control, I suggest that, to be on the safe side, we should first draw up the following.<sup>131</sup>

- 1) Specific plans for the amounts and types of grain that the greater administrative regions and the provinces are to turn over to the central government (at present I have no idea what the exact figures should be); and

- 2) Draft agreements regarding the amounts and types of grain to be transferred from one region to another.

It would be better to postpone implementing the new system until these two things have been agreed upon.

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Telegram in reply to a query from Premier Zhou Enlai.

## SOME IDEAS ABOUT FINANCIAL AND ECONOMIC WORK

*August 6, 1953*

First I should like to talk about price policy. There are a number of reasons for the current high prices of many commodities. For certain goods, it is we ourselves who are responsible. For instance, the price of cotton yarn and cloth went up a little in 1950 and again in 1951 because we introduced a sales tax on them.<sup>91</sup> For other goods, it is because they are in short supply. From 1950 to 1951 we had only a limited stock of sugar, so we were not able to meet the market demand and consequently the price rose. For still other goods, the price rise is due to the low efficiency and high production costs in state-owned enterprises. Once we improve efficiency and lower production costs, prices for these goods will fall.

I agree with the comrades who say we should be careful about lowering prices. It is easier to lower a price than to raise it. If we raise a price that has been lowered, people will complain. We should not treat all prices in the same way, that is, we should lower only those prices that can be lowered at this stage.

Cotton yarn and cloth are most important to the peasants. According to a survey conducted in northeast China, these two commodities absorb 30 per cent of the peasants' purchasing power. So if we lower the prices on them, it will benefit many people and help narrow the gap between the prices of industrial and agricultural products.

Last spring we proposed that the prices of cotton yarn and cloth should be lowered a little, if possible. However, there are two things we have to take into consideration: the amount of cotton yarn and cloth available for this year and the impact that lowering the prices would have on tax receipts. We estimated earlier that we would have 550,000 bales of cotton yarn on hand

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Excerpt from a speech delivered at a meeting of the leading Party members' group of the National Conference on Financial and Economic Work held in Beijing in the summer of 1953.

by the end of this year, but now we calculate that we shall have only 380,000 to 390,000 bales and 25 million bolts of cloth, which is also less than expected. If we don't have a sufficient stock of these commodities, we shall have to postpone lowering their prices until next year. Right now receipts from the sales tax on cotton yarn and cloth amount to 1.8 trillion yuan;<sup>2</sup> if we reduce the tax by 50 per cent, our revenue from this source would drop to 900 billion yuan and, even so, it would reduce the prices of cotton yarn and cloth by only 2 or 3 per cent.

We should proceed carefully in these matters. Because there are still private merchants in business, simply reducing the prices will not necessarily benefit the people. Sometimes when we do that, it brings no savings to consumers, because private merchants seize the opportunity to hoard goods and then, when ours are all sold out, to sell theirs at higher prices, making enormous profits. As long as various sectors of the economy co-exist, we must be careful about reducing prices.

Since last September I have hesitated to recommend lowering prices. Because of the military expenses we had to bear, I was worried about a potential decrease in our profits. We could not cut those expenses, because it was not up to us to decide if there was to be war. Last year when President [Dwight D.] Eisenhower took office, he said the Americans would make landings on both sides of Korea. So we had to give top priority to ensuring military supplies. A considerable proportion of the budget had to be allocated to military expenses. Fighting continued until late July just before the armistice was signed. So we had no choice.

(Comrade Zhou Enlai interrupts, "Funding for national defence will continue to account for a large proportion of the budget in the years to come.")

Now that the Korean war has ended, I am greatly relieved. For the past three years I have been worrying about the war, which has been more important than anything else. In March 1950 we unified national financial and economic work<sup>83</sup> and stabilized the market. In June the Korean war<sup>88</sup> broke out, and in October the Chinese People's Volunteers went to Korea. At that time the situation was tense: at the front we had to resist U.S. aggression and aid Korea, and at home we had to stabilize the market. Confronted with these two difficult tasks, we could not afford to fail in either. We had to succeed in resisting U.S. aggression and stabilizing the market at the same time. These were paramount tasks. Later Comrade Mao Zedong suggested we should not only resist aggression and stabilize the market but also undertake economic development. These were the major problems that were always on my mind.

We have to narrow the gap between prices for industrial and agricultural products. This is an objective to which the Communist Party is committed, and we should never forget it. The purpose of revolution is to improve the lives of the great majority of people, but in view of the shortage of manufactured goods, it will be hard for us to do that soon. It is my duty to make this clear, because we must accumulate funds to expand production.

Now I want to say a few words about lowering interest rates. Last June we lowered them, but only slightly.<sup>132</sup> We could not afford to lower them too much or too soon. Up to last year prices were rising, and there were still many private banks, so we were not able to reduce interest rates then. However, after the movements against the “three evils”<sup>112</sup> and the “five evils”<sup>121</sup> were over, private banks became joint state-private enterprises, and their 18,000 staff members became government employees. Then it was possible for us to lower interest rates. I also agreed with the suggestion made by some comrades that we should lower the rates twice. Actually, we did so only once, but that was an oversight, and it should now be remedied. We should make a special study to determine to what extent the rates should be lowered.

Next I want to discuss how we should use the country’s financial resources in future. We must help local authorities overcome their most pressing financial difficulties. But all of us agree that we should concentrate our financial resources on construction of industrial projects, so local authorities will refrain from asking too much of the central government. Funds can be used only on construction of key projects that will be of major importance for the economy; this is our basic line. Where we are sure that delegating financial authority to local governments will not be of much help to them, we can postpone doing it.

Now about who should have the power to draw up budgets. Budgets reflect state policies; they are not designed simply to calculate and control revenue and expenditure. Accordingly, the Party should be responsible for them—the Central Committee for the national budget and the provincial and municipal Party committees for local ones. In this way the Party will be able to apply its financial and economic policies.

In the past when we drew up a budget, the financial and economic departments (the Central Financial and Economic Commission<sup>7</sup> and the Ministry of Finance) were supposed to propose a draft, invite comments on it from the heads of the various ministries and of the commissions of law, culture and education, and then revise it in consequence. Actually, the ministries and commissions didn’t have much say in the matter, and we tended to ignore their needs. We had no choice but to do this then, and there

will be changes in this respect in future. Of course, it will still be necessary for the financial and economic departments to propose a draft budget for discussion.

Finally, I should like to say something about the need to expand the volume of trade of state-owned stores. That has to be done, but we should not unthinkingly squeeze all private merchants out of business. We should ask local Party committees to see to this, and not just leave it to commercial departments themselves. We should have opened more state stores; our failure to do so is a Right deviation. However, we should be ware the notion that it is better to be too Left than too Right, lest we fall into Left deviation.

We should treat private retailers and wholesalers differently. Last year the Central Committee issued a directive on the readjustment of commerce that made it clear how to deal with retailers.<sup>133</sup> We should adopt a different policy towards wholesalers. Since we have retained control of the sale of salt, coal and undyed cloth, etc. there is no need for us to regain our position in those markets. We should not prevent private wholesalers from dealing in certain other goods—rural specialty products, for instance. We have nothing to gain by driving them out of business. But if private businessmen dominate the market for commodities that we should control, we shall force them out. In doing this, however, we should proceed gradually, considering carefully which commodities we should control and what proportion of the market for them must remain in our hands. With good preparation, we can ensure that while we gain control of some commodities, we are not losing control of others to private merchants. We should be particularly careful about this in areas where there is a low proportion of industry, little investment in capital construction and a high proportion of commerce. In short, the state is powerful, and it will not be hard for us to drive private merchants out of business, but we must not do so recklessly.

## OVERCOMING DEFICIENCIES IN OUR FINANCIAL AND ECONOMIC WORK

*September 14, 1953*

In the first half of this year the market was stable and the economy was expanding. Except for agricultural production, in which natural disasters have made it difficult to fulfil quotas, the present situation in all areas of production is good. On the whole, our economic work has been successful, including in the area of commerce, and so has our financial work.

Now I should like to say something about certain deficiencies in our financial and economic work.

First, about tax collection.

We had several successes in tax collection in the first half of the year. First, we took in 43 per cent of the total amount planned for 1953. The experience of the past few years has shown that we can usually collect 40 per cent of the tax revenue in the first half of the year and the other 60 per cent in the latter half. So we did well to collect 43 per cent. Second, tax collection was accomplished in accordance with policy, so from that point of view also we did well. Third, the attitude and work style of the collectors have improved. Nevertheless, during this period we made some serious mistakes in revising the tax system.<sup>134</sup>

Between 1949 and 1952, there was a gradual increase in the amount of goods the state purchased from private manufacturers, to whom it paid a fee that included compensation for the business tax. There was also an increase in the amount of goods the state sold through private merchants, to whom it paid a commission that likewise covered the business tax. Accordingly, tax revenues fell, and we had to find a way to compensate for the loss. Under these circumstances, we were justified in revising the tax system, but we should have considered more carefully what changes were to be made.

According to the revised system, the business tax is not based on orders

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Excerpt from a report delivered at the Twenty-fifth Meeting of the Central People's Government Council.

placed by the state with private factories or on the purchase and sales commissioned by the state. Rather, it is based on the volume of business of private retailers acting not as agents of the state but as independent businessmen. The new system was supposed to create equality between state-owned and privately owned enterprises.<sup>135</sup> But this “equality” actually means only that state-owned stores and cooperatives have one more tax to pay. Also, it implies that the wholesale business tax should be paid not by the wholesaler who purchases goods but by the manufacturer who sells them. In other words, that link in the tax chain has been shifted. These, then, were the two main mistakes we made when we revised the tax system: creating the so-called equality between state-owned and privately owned stores, and shifting a link in the tax chain.

Should there be equality between state-owned and privately owned enterprises? No. It is wrong to make them equal, because they are different in nature. First of all, state stores turn over all their profits to the state, while private stores only pay income tax. In addition, the two types of enterprises have different responsibilities. Private shops engage in business mainly to make a profit, although naturally they also serve to satisfy market demand. State stores, on the other hand, are in business not only to make money but also, and more important, to maintain production and keep the market stable. To maintain production, they must order goods from factories in both busy and slack seasons. They must purchase agricultural products whenever they are harvested, even if it takes them half a year to sell those products or a whole year to exchange them for imports. Otherwise, there would be little demand for them. We have to stock a considerable quantity of goods and raw materials in order to keep the market stable. That is the only way we can eliminate speculation by private businessmen. But if state stores are to stockpile goods, they must take out bank loans and thus incur interest.

Furthermore, at times they have to do business at a loss. For instance, we lose a large amount of money when we have to transport grain from Sichuan to Wuhan and Shanghai by cargo ship or warship, because the transport fee is high. Shall we put a tag on the rice on the Wuhan and Shanghai markets reading, “This rice is expensive because it cost a lot to transport it from Sichuan”? [*Laughter.*] We cannot raise the price, so we must sell at a loss. This is absolutely necessary from the national point of view. If the people’s government does not follow this policy, it will be making a great mistake. But will private businessmen do the same? Certainly not.

That is why I say state-owned and privately owned stores are different in nature. Cooperatives, however, are very similar to state stores, having the

same obligations. It may seem fair to propose equality between state stores and cooperatives on the one hand and private enterprises on the other, but actually, it is not. Equality between publicly and privately owned enterprises is wrong.

What is wrong with shifting a link in the tax chain? The problem is that the wholesale business tax is now paid by the factory. Exempted from this tax, private merchants can cut into the business of the state stores. They can purchase goods wholesale at the same price as the state stores, but sell them retail at lower prices. They are not afraid of buying goods in large quantities, because the more they sell the more quickly they get a return on their investment and the more profit they make. In this way, private stores will expand rapidly, which will be a heavy blow to state stores.

Shifting the burden of the wholesale tax onto manufacturers will also damage the interests of inland industrial enterprises. Take factories in Chongqing and Xi'an, for example. They used to pay only two types of taxes: a commodity tax<sup>52</sup> and a factory-exit business tax. Factories used to sell large quantities of goods without paying a wholesale business tax. Now that this tax has been added, it has created great difficulties for inland factories and stimulated unplanned industrial development in coastal cities, such as Shanghai and Tianjin. As a result, during the first half of this year, many small manufacturers were driven out of business. That is not in conformity with state policy.

Our country is led by the working class, and the state sector is the dominant one in the economy. In such a country, the mistakes we have made in revising the tax system are mistakes of principle. Since we have already made them, what is to be done? I think that since the new system has already been put into practice, we should not restore the old one in haste, without proper preparation: that would create total confusion. Exactly how can we solve this problem? We must study it carefully. We have already introduced a new form of wholesale tax on wholesalers who were exempt from such a tax, thereby imposing a restriction on them.

In short, we must be cautious in modifying the tax system, because it affects all aspects of economic life.

Second, I should like to discuss the work relating to commerce.

Over the last few years state stores have played an important role in revitalizing the economy by organizing the flow of goods between town and country and between domestic and foreign markets. Thus they have promoted the restoration of industry and agriculture and stabilized the national market. In the first quarter of this year, however, the volume of business of state stores fell. This is not good. There were many causes, but the principal

one was that we had underestimated market demand and overestimated the supply of goods we had on hand; in other words, we thought the warehouses were too full. Putting forward the slogan, “The warehouses must be emptied”, we had reduced state orders for goods. As a result, by the first quarter of the year many commodities were no longer available on the market. That was one mistake we made.

Another mistake was that state stores purchased fewer products from state factories and more from private ones. Because they underestimated the market, they asked state factories to decrease production. However, since the workers went on working, the factories went on producing as much as before. When they wanted to sell their products to the state stores, the latter refused to purchase them. The factory people said, “If you don’t buy them, we’ll sell them ourselves,” but the state stores prohibited them from doing so. Naturally, the factory people were very resentful. Treating the state factories that way was another mistake of principle.

Lastly, some remarks about the budget and finances.

The budget for 1953 is basically correct, but it too has some deficiencies. It lists a cash surplus of 30 trillion yuan,<sup>2</sup> which I consider unrealistic. Let us analyse it.

The surplus consists of five parts: 1) Last year’s surplus transferred to this year; that is, money (including tax revenue, profits turned over to the state, etc.) received after December 20, 1952, that could not be used last year. 2) Expenses that are listed in this year’s budget but were paid last year. 3) Unspent funds for engineering projects extending beyond last year. 4) Surplus left over from last year in the budgets of central government departments and local authorities, income from industrial enterprises run by government departments and from tax revenue, etc. All the funds in this fourth category were turned over to the central government after the movements against the “three evils”<sup>112</sup> and the “five evils”<sup>121</sup> last year. They come to a considerable amount, but we will never have such funds again. 5) The real surplus: for example, if ¥10 million is budgeted for building an auditorium, but only 9 million is used, then 1 million is surplus.

The first and second items occur every year; part of the previous year’s surplus is transferred to the current year and part of the current year’s surplus is used the following year. This year’s budget, however, shows only the amount carried over from the previous year. This means that the amount of funds available for the year, as shown by the budget, is larger than it is in actuality. Why didn’t we notice it until this year, when it appears to be a serious problem? The answer is that because of our inexperience, in the past

few years our budget calculations were not very accurate. The taxes and profits turned over to the state always exceeded our original estimates. Now, however, our calculations are fairly accurate, so we have less unexpected revenue. On the other hand, we have more unexpected expenditures. That is why the reserve fund is inadequate, and why, by the end of last June, there was a deficit of about ¥21 trillion.

The problem between the central financial departments and local financial departments is that the former have exercised too much control over the latter. In my report to the Central People's Government in 1952,<sup>136</sup> I recommended that financial work be centralized, which was right. But now we control everything down to the tuition for primary school pupils (some of which is not even paid in RMB but with a few kg. millet or some eggs).

Moreover, our control is too rigid. The Ministry of Finance allocates money to departments of education, industry and so on. If one department in a greater administrative region,<sup>11</sup> province or county does not use its entire allocation and another department needs money, the local authorities have no power to transfer funds. We are too rigid about this. Of course, special funds must be used for special purposes. We cannot allow money earmarked for building a factory to be spent on an auditorium instead. We should, however, give local authorities some flexibility; within a certain range they should have the power to transfer funds. Since the country is so vast and local conditions are so complex, we cannot, and must not, exercise too tight control over local authorities.

To solve this problem, we are preparing to define the responsibilities of the central and local financial departments. However, once this is done, we should make sure that the central government does not arbitrarily demand funds from the local authorities.

I have mentioned some of the mistakes that have been made in the fields of taxation, commerce and finance. For all of them, the Central Financial and Economic Commission (CFEC) and other competent ministries and commissions bear the responsibility. As director of the CFEC, I must take primary responsibility for these problems.

What is to be done about the deficit? Top priority should be given to expanding production and to saving money wherever possible. The first will increase our income, while the second will reduce our expenditure. All industrial, agricultural and commercial enterprises, be they state-owned or private, all government departments, army units and mass organizations, and all central and local authorities should make every effort to increase production and to spend with care. If everyone works hard, I think we shall be able

to make up the deficit and to get through the year without trouble. Of course, we shall have to keep trying to increase production and to trim expenditures not only during the remainder of this year but for years to come.

## **ESTABLISHING A STATE MONOPOLY OF THE PURCHASE AND MARKETING OF GRAIN**

*October 10, 1953*

The national grain problem is very serious. And if we do not take steps to solve it, it will grow even worse. This is clearly shown by the following facts.

First, we are selling more grain than we buy. From July through September this year, we bought 4.9 million tons of grain, which was 0.35 million tons more than we had planned. But we sold 6.2 million tons, or 0.95 million tons, more than planned. That is, even though we purchased more, we still sold more than we purchased. The reason is that since the peasants sell no grain to private merchants, who therefore have no grain to sell, we have a monopoly, and the volume of our sales accordingly increases. In other words, the peasants sell less, while we sell more.

This was not the case in 1951 and 1952. Before June 1951 grain was in short supply, but in July we began to purchase more than we sold. Again, before October 1952 we were selling more than we bought, but after November the situation changed, so that by and large, purchases exceeded sales. Is the same thing likely to happen after November this year? I'm afraid there is small chance of that.

Second, quite a few places are in turmoil. On the whole, the big and medium-sized cities remain calm, but in small cities and towns and in disaster areas and places where grain supplies are exhausted, chaos is approaching. Grain merchants are speculating without restraint, particularly in areas of shortage. There are hundreds of thousands of them, including peasants and small peddlers in towns. Some were not grain peddlers before but have now begun to buy and hoard grain. When prices fluctuate, the number of speculators can increase by hundreds of thousands overnight, or by several million in two or three months. All this naturally encourages the peasants to

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Speech delivered at a national conference on grain convened by the Central Committee of the Chinese Communist Party.

hold on to their grain. Also, the mutual embargo on grain shipments between regions causes panic buying and price rises.

Third, northeast China has suffered natural disasters. Floods there were worse this year than in 1951, resulting in a poorer harvest, so the state's purchasing quota will not be fulfilled. According to this year's plan, northeast China was to produce 22 million tons of grain, of which 5 million would be purchased by the state. However, according to a recent estimate by the Northeast Bureau of the Central Committee, the output will be at most 18.5 million tons, of which only 3.8 million will be purchased. Northeast China was supposed to turn over to the central government 2.1 million tons of public grain, but in fact it will be able to deliver only 1.3 million, leaving a shortfall of 0.8 million. The central government's total stock of grain will be only 4.8 million tons, so a decrease of 0.8 million is by no means negligible.

Fourth, Beijing and Tianjin are short of flour. They have only 0.5 million tons in stock, and they need 0.8 million. Wheat is the staple grain for both cities, so we must find some way to solve their problem. Couldn't we bring in wheat from other parts of the country? I would have no objection to that solution—indeed, I would welcome it. But I don't think it would work. For one thing, the amount of grain to be transferred would be enormous. For another, much of it would be bought by private merchants and would end up elsewhere.

We have no choice but to ration flour in Beijing and Tianjin. Will this affect Shanghai, Hankou and perhaps even Guangzhou? I think it will. If flour is rationed in Beijing and Tianjin, private merchants in Shanghai will try to buy up flour and wheat. If we don't ration flour in Shanghai too, private merchants there will take advantage of the situation. Will rationing flour affect the purchase of autumn grain in the free markets? I think it will. That is why some degree of rationing must be introduced throughout the country.

Fifth, if such a serious grain problem remains unsolved, we shall be unable to buy as much as we planned, and at the same time we shall have to sell more. At the Conference on Financial and Economic Work held last August,<sup>131</sup> we decided to purchase 17 million tons of grain. We are already short 1.2 million tons in the Northeast, and in some other places also the plan will not be fulfilled. The tighter the grain market, the harder it will be for us to buy grain.

So far we have purchased 4.9 to 5 million tons. From October through December this year, we plan to purchase 8 million, and from January through June next year another 4 million. Otherwise, we shall not fulfil the plan.

According to current estimates, the grain supply is bound to be tight after February and March next year, so there is still the question of how much we shall be able to buy after that time. I don't think it will be a great amount. According to the original plan, we were to sell 24 million tons of grain, a little more than last year's figure, which was just over 23 million tons (excluding the amount sold by private merchants). That figure is sure to be exceeded. It is estimated that we shall have to sell more than 27.5 million tons, perhaps even 30 million.

What is the difference between anticipated purchases and anticipated sales? If we sell 28.35 million tons of grain this year, that will be 4.35 million tons more than we planned. If our purchase falls short by 1.5 million tons, the difference will be 5.85 million. But even if the purchasing plan is fulfilled, a difference of 4.35 million tons is no small amount.

How are we to make up the difference? The amount of public grain collected can only be reduced; it would be difficult to increase it. Should we cut back, then, on expenditure? I have considered every possible way to do that, but none will work.

Can we reduce the amount of grain to be sold on the market? No, we cannot. The grain for urban populations must be supplied according to their numbers. In the countryside, people in disaster areas and households that have no grain must be supplied as well.

Can we export less grain? We should abandon that idea. Of the 1.6 million tons of grain to be exported, 1 million tons (soybeans) will be bartered for machines from the Soviet Union and other countries, and 0.27 million tons will be traded for rubber from Ceylon. The remainder will be exported to still other countries. All these exports are necessary.

Can the grain rations for soldiers and government employees be reduced? In addition to what they buy on the market themselves, the government supplies them with 1.65 million tons. That figure cannot be reduced.

Can we cut grain reserves or reduce the amount of grain to be stored for current use? No, we cannot do that either. The amount we should add to reserves in this grain year is 1.15 million tons, and the amount we should add to stores is 2.7 million tons.<sup>137</sup> That makes a total of 3.85 million tons. Even if we used this grain to make up the difference of 4.35 million tons, we would still be short 0.5 million tons. In other words, we would have to use 0.5 million tons of grain already in storage. Thus, the stores on hand this year would be reduced from 9.7 million tons to 9.2 million. If that happened, the situation next year would be even more critical, affecting more people, because if this year's stores are reduced to 9.2 million tons, of which 8.95 million must be set aside for use between harvests, only 0.25 million tons

will be left for use. If we consumed our total stores, the cupboard would be bare until the new harvest, and that would be very dangerous.

It seems as if 8.95 million tons is a large amount, but after analysing the situation, we can see that it is the minimum that should be kept on hand for use after the old grain has been consumed and the new harvest has not yet come on the market. In every greater administrative region<sup>11</sup> enough grain should be stored to last for three months, from the end of June to the time when the autumn harvest comes on the market. The new grain will enter the market, at the earliest, by the end of October in northeast China, in the first half of October in north China, by the end of October in northwest China, by the end of September in east China, by the end of August in south-central China, and by the end of September in southwest China.

We need at least 5.9 million tons of grain for this interim period. However, a certain portion of the grain we have on hand cannot be counted as available. For example, we have 1.05 million tons of wheat, but that is the supply for the whole year. Then, we have about 1 million tons of grain stored in remote areas from which it is too difficult or too expensive to transport it to market elsewhere.<sup>138</sup> Also, at any given time about 1 million tons are being processed or in transit. These four items together total 8.95 million tons. From this analysis we can see that 8.95 million tons of grain is not too much for us to keep on hand.

In the past we anticipated that difficulties in the supply of grain would arise from April to May or May to June, but it seems that they will come sooner than expected next year. It is estimated that just after Spring Festival [Lunar New Year, falling that year on February 3] the problem will be more widespread. At that time there will be still less grain available for us to buy, yet we shall have to sell more. If we have only a little grain in storage, severe problems will arise. In the past when difficulties arose, we reduced the supply in small and medium-sized cities to ensure supplies in major centres, such as Shanghai, Wuhan, Guangzhou, Beijing, Tianjin, Xi'an and industrial bases and mines in northeast China. Now, if we reduce the supply nationwide, the major centres themselves will undoubtedly be affected.

What is the consequence of a grain crisis? When we say we have ensured an adequate supply of goods and raw materials and stabilized prices, we are talking about cotton yarn and cloth and grain. Grain is more important than cotton yarn and cloth; fluctuations in the price of grain will affect the prices of other goods. In 1950 and 1951 the price of cotton yarn and cloth rose 25 per cent, and that had a slight effect on the prices of other goods. If, however, the price of grain increases by 25 per cent, it will have much greater impact on the workers, because 60 to 70 per cent of their income is spent

on food and only about 10 per cent on clothing. The prices of vegetables, pork, eggs, etc. follow the price of grain. If the price of grain rises, it will cause a general increase in the prices of other goods. If commodity prices go up, wages will have to be increased. If wages are increased, the budget will be exceeded. And all this will create a panic. The price stability welcomed by the people after the establishment of the people's government will vanish. From this we can see that the grain question is crucial; we must take resolute measures to resolve it.

In addressing the grain problem, we have to handle four relationships: 1) between the state and the peasants, 2) between the state and urban consumers, 3) between the state and private merchants, and 4) between the central and local authorities and between local authorities themselves. Of these, the first two are the hardest to handle, especially the first. If we handle the first well, we shall be able to deal with everything else. So long as we can purchase grain, distribution will be easy.

In the present situation, the basic measures we should take to handle these relationships are: 1) to introduce state purchase quotas in rural areas, 2) to institute a system of rationing in urban areas, 3) to tighten control over private merchants, and 4) to readjust internal relations. I shall deal with each of these measures in turn.

1. *Introducing state purchase quotas in rural areas.*

The idea of introducing quotas for state purchases is shocking. You may find a better term for it, but you cannot change the idea. Why should we take this step? The basic reason is that we need more grain every day, but our sources are insufficient, so there is a gap between supply and demand. Over the last few years we have encouraged the flow of goods between town and country and the purchase of local specialty products. As a result, the peasants' income has increased and their standard of living has risen. Those who don't have enough grain want to buy more, and those who do have enough want to consume more and sell less. Consequently, although we need more and more all the time, they sell less and less.

Some comrades have suggested that we could purchase more grain if we prohibited private merchants from buying, but I don't think the peasants would necessarily sell more grain to the state in that case. In view of the tight supply, we must introduce quotas for state purchases. If we go on buying grain without quotas, the Central People's Government will just be asking for handouts, like a beggar on the eve of Spring Festival.

Is this measure too drastic? Can we buy all the grain we need without imposing quotas? Of course, it would be best if we could. I am a peaceable man, and I always hope to avoid trouble. But I am carrying two buckets of

different explosives on my shoulder pole, one type in front and another in back. If we can't buy enough grain, the price of everything will go up, but if we impose purchase quotas, the peasants will complain. We have to choose between two risky alternatives. Our problem now is to buy enough grain. If we fail, the grain market will go wild—that much I am certain of—and that is not something to be taken lightly.

Is there any alternative to purchase quotas? I have thought about many possible ways of solving the grain problem, starting with ones that would call for the least change and ending with the one that would be most effective. Let me present to you comrades, for your consideration, all the possibilities I have turned over in my mind.

1) *Introducing both purchase quotas and rationing.* This would mean imposing state purchase quotas in rural areas and rationing in urban areas. I am a little worried about doing this, because it would involve everybody. If trouble arose, the consequences would be even more serious than those resulting from implementation of the new tax system.<sup>134</sup> The new tax system affects only relations between us and the capitalists; this method would involve relations between us and the peasants.

2) *Introducing rationing without purchase quotas.* This would mean rationing in urban areas, but no quota system in rural areas. Comrades working in the countryside are frightened at the mention of state quotas and hope that such a system will not be introduced soon, but they like the idea of rationing in the cities. Yet if we chose this method, we would only be solving one side of the problem. That is, we would sell a fixed amount of grain to each city resident and prevent private merchants from hoarding grain or transporting it to the countryside for resale. However, having eyes and ears, and knowing that rationing was in effect in the cities, the peasants would not sell grain to the state. So if we enforce rationing in urban areas without imposing purchase quotas in rural areas, we probably won't be able to buy any grain.

3) *Introducing purchase quotas without rationing.* This would please the comrades working in urban areas. They think that it is necessary to institute purchase quotas in the countryside but that rationing in the cities should be postponed. The Japanese imperialists imposed rationing in areas under their occupation, and so did the Kuomintang. People really hate to hear talk of rationing. However, if we impose purchase quotas in the countryside without rationing in the cities, the quota system will collapse. What will happen is that you purchase grain according to quotas in a rural area, giving the peasants bank notes, but then with that money they turn around and buy grain from grain companies in the city. Thus, the grain you have purchased

will flow back into the hands of the peasants. That is why this method won't work.

4) *Maintaining the present system.* This would mean that we continued selling and purchasing grain freely. The inevitable result would be disorder. Some comrades say we should allow a year of disorder and then decide what to do. But then it would be even harder for us to impose purchase quotas.

5) *"Waiting to dig the well until you are thirsty".* This would mean that at first we would buy grain freely, but when we had no other choice, we would go to the main grain-producing areas, where 15 to 20 per cent of the rural population is located, to buy more under a quota system. Before we decide to do this, we should consider two points. First, can we fulfil the purchase plan by buying freely? If not, we should be more prudent. Second, which is better: to introduce grain quotas now or next February-March or March-April when there is already a shortage? I think it's better to dig the well before you are desperate.

6) *Mobilizing people to sell grain.* This is the method we used in northeast China in 1951. The central government determines the amount of grain to be purchased in a given locality and passes that figure down through the province, the county and the district to the Party branch. The Party branch calls a meeting and asks everybody to sell grain. The meeting doesn't adjourn until everyone agrees to sell enough grain.

This is the method of coercion without command. Isn't it coercion to hold the meeting open until our demands are met? State purchase quotas should be imposed by issuing an administrative order. That would be better than resorting to coercion. *We* should persuade the peasants to sell grain instead of forcing them to do so.

7) *Signing contracts for purchases in advance.* This is a good method, but it is too late for us to put it into practice this year. Some comrades say that we have been able to buy cotton because we had signed contracts, but I think the main reason was that more than 1 million tons of cotton was picked last year. If there had been a poor harvest, the peasants would not have sold us cotton even though they had contracted to. Right now there is a shortage of grain. The contract method is a useful one, and we should not abandon it completely, but there is not enough grain available to make it feasible at this time.

8) *Letting local authorities decide.* This means that different local authorities would use different methods. *We* could try this system so long as the local governments accomplish the task and one does not damage the interests of another.

Of all these methods, the only feasible one seems to be the first

—imposing state purchase quotas in the countryside and rationing in the cities. The others simply are not workable. If you all agree with this assessment, we must seriously consider what problems the first method may cause.

China has about 260,000 townships and one million villages. If trouble occurs in one village out of ten, that will mean trouble in 100,000 villages, with people being hounded to death, fighting with shoulder poles or rising in rebellion. We shall pay money for the grain we buy, of course, but the peasants will not be able to dispose of the grain as they see fit, waiting for the highest bidder, and presumably that will dampen their enthusiasm for production. In order to raise their morale, we should not only pay them money but provide them with goods. Unfortunately, we are not in a position to do all this at present. Manufactured goods for daily use account for 30 per cent of the peasants' needs, and farm animals and implements 70 per cent. We cannot offer all those things at once.

I could list many more problems that may arise. We have no experience in this area, so something unexpected is bound to happen.

Nevertheless, we have to consider what we could do if we did not adopt this solution. The only possibility would be to spend all our foreign exchange to import grain. And if we did that, we should have no money to import machines and equipment; we should have to call a halt to capital construction and industrial development.

We have only two alternatives: to institute purchase quotas or not to institute them. If we do not, we can expect great disorder in the grain supply and the grain market. If we do, we can expect minor or even major disturbances in the countryside. But through the long revolutionary struggle we Communists have established close ties with the peasants. So long as we are determined to do the work well, we can keep disturbances to a minimum. Moreover, this is a long-term strategy. We shall have to use this method until there is a significant increase in agricultural production.

Now I should like to say a few words about the time schedule, the specific figures for purchase quotas, and concrete measures we must take to put the system into practice.

At first I was doubtful about adopting the new system this year. I thought it was too late, because the public grain was about to be collected. Later, Comrade Deng Xiaoping proposed that to avoid possible problems, we should postpone the collection until we were ready to introduce the purchase quotas.<sup>139</sup> After discussion, the Central Committee agreed to Comrade Deng Xiaoping's proposal and decided to postpone collecting the public grain until this November.

How about specific figures for grain quotas? The list you have before you provides for a total of 17 million tons, broken down by greater administrative regions. These figures are only rough estimates for you to discuss.

What standard should we use for establishing state purchase quotas? It would be best to follow the standard for collecting public grain. In other words, in any given locality the purchase quotas might be set at 0.2, 0.4, 0.5 or 2 times the amount of public grain collected there. That would be a convenient way to make the calculation.

We should not apply purchase quotas in remote areas from which grain cannot be transported to market. Since in those places they still have stores of grain from previous harvests, there is no need for us to institute the purchase quota system. We should, however, apply the quota system in all places where grain can be transported to market.

We should set a fair price for the grain we buy. What is a fair price? Not the black market price, but one that is beneficial both to us and to the peasants. Middle and rich peasants are often unwilling to sell us grain because they would rather hold on to it until the season when the price rises. Comrade Mao Zedong has urged us to find a way of enabling them to benefit from the seasonal price differential. I think we might try an arrangement by which the peasants would sell us grain and deposit the proceeds in the bank. Four or five months later they could withdraw both the principal and interest earned on it.

Now about the problem of supplying goods and controlling currency. We are unable to provide the huge quantity of goods that would be required to pay for all state purchases of grain, and in any event, many types of goods are simply not available. However, after calculation, I am convinced that it will cause no great problem in the market if we issue more currency to pay for these purchases.

We planned to buy 10 million tons of grain between now and the end of February. We can surely supply enough goods to exchange for that amount. The problem is that from next February to the end of June we originally planned to buy 2 million tons of grain, but we now intend to raise that to 7 million. That means we shall have to issue an additional 12 trillion yuan.<sup>2</sup> Can the market withstand the impact of such an increase? According to my analysis, it can. There are five reasons, as follows.

1. After selling their grain, the peasants will sell a smaller amount of local specialties, such as peanuts, green gram and sesame seed. But having just earned money from the grain, they will be in no hurry to sell these products. On the contrary, they will delay for a while, and that will mean a

reduced amount of currency in circulation by about ¥3 trillion.

2. Next year's budget lists ¥6 trillion of government bonds, of which ¥4 trillion will be sold in cities and ¥2 trillion in rural areas. The ¥2 trillion of bonds sold in rural areas plus the saved ¥3 trillion mentioned above will total ¥5 trillion.

3. We estimate that by raising the interest rate, the banks will attract ¥3 trillion of deposits by peasants. It does not matter if we pay higher interest. Even if the rate is fixed at 10 per cent, it will cost us only ¥300 billion. It is well worth spending ¥300 billion to secure a stable market. However, the higher interest rate should apply only to deposits of earnings from the sale of grain, not to other kinds of savings.

4. State-owned stores and cooperatives have already stocked goods worth ¥4 trillion. Not all of them may be suitable for the peasants, but in any case we have stocked some.

5. Winter is the time when peasants repay their farm loans and borrow new money. If they repay more than they borrow, or borrow a little later than usual, we shall save about ¥1 trillion.

On the whole, therefore, increasing the amount of currency issued by ¥12 billion will not mean that a large sum is put into the market. The whole nation should try to provide manufactured goods for the rural market (and city people should not rush to buy from the peasants). Thus, some of the peasants' money will be absorbed in the cities.

On whom should we rely to institute the system of state purchase quotas? On cadres at the district and township levels and on Party and Youth League members. Many of our rural cadres have become middle peasants. If they are persuaded to set an example, they will help a great deal in this work. In the meantime, we should help those households that are short of grain. If this problem remains unsolved, we shall lose the support of the people, and that will hamper our efforts to implement the quota system. In instituting the new system, we should take full advantage of the people's representative conferences to rally support through democratic discussion. Also, senior cadres should go down to the countryside, both to help the grass-roots units and to provide overall guidance for the work by summing up experience.

It is going to be difficult to institute a system of state purchase quotas for grain, even more difficult than dealing with capitalists. To make the system work, we shall have to adopt many economic measures and, at the same time, conduct a thorough and extensive political mobilization among the people. So we are faced with an enormous political task as well as an enormous economic task. Given our inexperience in such work and the pressure of time, we shall inevitably make mistakes, not only in the first year,

but also in the second and third. I don't think this sort of work can be done well on the first try; it will take us two or three years to learn how to do it properly. After all the years we have been collecting public grain, we still make mistakes in that work. How can we expect to make no mistakes in this completely new endeavour?

Nevertheless, I feel certain that we can make the quota system work. In each of the last two years the peasants delivered more than 30 million tons of grain. We now need to buy only 17 million tons, which we can surely do. So long as we set a fair purchase price, we should be able to buy all the grain we need. Quantity and price are the two decisive factors. Moreover, of the 30 million tons of grain delivered to the government, nearly one-fourth returned to the countryside, mainly to cash crop areas and disaster areas. In fact, this amount of grain has served to make up for rural shortages.

*2. Instituting a system of rationing in urban areas.*

The term "rationing" sounds bad. It reminds people of the time of the Japanese invaders and their puppet regime. At the suggestion of Comrade Zhang Naiqi, head of the Ministry of Grain, we have changed this term to "planned supply". The present rationing system is quite different from the one imposed by the Japanese invaders and their puppet regime. Under the occupation cooking oil, salt, soy sauce and vinegar were all rationed in addition to grain, but now only grain will be. Under the old system people went hungry, but that will no longer be the case. In terms of the types of foods rationed and the quantity of grain allowed each person, the two systems are entirely different.

We should introduce rationing promptly throughout the country. It will be easier to do so in the towns than in Beijing, Shanghai and other big cities. A town has a population of only two or three thousand, and usually there are a couple of grain shops that can take charge of the work. Rationing is scheduled to begin in Tianjin and Beijing on November 1. If there isn't time to issue ration cards, people can use their residence booklets instead. You comrades must consider whether rationing should be introduced in other cities simultaneously. In some places, such as Shanghai, the situation is quite complicated. We may have to delay the start of rationing there, so as to give ourselves more time to prepare.

Do we have to divide people into different classifications? I don't think that's necessary at first. Yesterday, when the Central Financial and Economic Commission<sup>7</sup> discussed flour rationing in Beijing, I said that every person, adult or child, engaged in heavy labour or light, should receive the same monthly ration of four to five kg., in addition to whatever coarse grain [corn, sorghum, millet, etc. ] they wished to buy. I don't think we need classifica-

tions at first. We can refine the system later.

The introduction of rationing will inevitably give rise to a black market. Why? Some people may not have enough to eat, while others have grain to spare. Southerners like to eat rice, but northerners prefer wheat. Thus, there will be buying and selling. We should arrange a place where this trade can be conducted under our supervision. That's not such a terrible thing, and it's much better than having speculators engage in black market transactions because of the shortage.

The great advantages of rationing are that it will reassure the public, prevent grain from flowing to other places and prevent city merchants from hoarding.

### *3. Tightening control over private merchants.*

Basically, grain is managed by the state; private merchants should serve only as agents. In big cities the people who speculate in grain are the proprietors of grain mills, private merchants who sell grain either exclusively or along with other commodities, owners of private bakeries and itinerant grain peddlers.

The most difficult to deal with are the peddlers. Carrying only a shoulder pole, they move easily from place to place. And there are a host of them; you can find tens of thousands when prices are fluctuating on a local grain market. They buy grain and then sell it again. They don't have much capital, but they make people anxious about supplies. That is the pernicious effect they have. There are two ways to deal with them: by cutting off their outlets to prevent them from selling the grain, or by mobilizing the people to denounce them publicly.

Grain merchants should be forbidden to engage in other trades. Anyone who hoards surplus grain should be punished severely. Grain mills should be allowed only to process grain, not to buy or sell it. State management of coarse grains can be delayed for a while.

As for retail grain shops, especially in big cities, our first step should be to make them our agents. Won't they hoard grain, waiting for the best price? No, because under the rationing system they won't be able to: the people will buy grain from them at regular intervals. But won't they try to deceive people by lowering the quality of the grain? Yes, but we have other ways of dealing with that problem. Besides, if we let private merchants act as state agents, that will provide employment for many city people.

### *4. Readjusting internal relations.*

There are advantages to having both the central and local authorities share in the management of grain. Local authorities have been working hard and responsibly, making it possible for us to buy more and sell less.

Nevertheless, there are some drawbacks to the system. For one thing, in order to prevent grain from flowing out of their own areas, certain local authorities have raised the price. For another, now it is more difficult than ever for the authorities of a greater administrative region to transfer grain from one province to another, or for the central government to transfer grain from one place to another. It is also difficult to barter grain between regions and between provinces. Agreements often can't be reached because of mutual embargoes. In some areas disputes have arisen. During our discussions about the management of grain, we anticipated these problems, so we have been prepared for them.<sup>140</sup>

Another drawback is that the central government has not fixed a national sale price for grain. And since the new system of management was instituted, it has become even harder to do so. Thus when local authorities set grain prices, they tend to consider only their own interests. In some places the price has been deliberately set very high, in order to prevent grain from flowing to other areas. How shall we fix the state purchase price under the quota system? If the state pays a high purchase price nationwide without raising the sale price, it will lose at least ¥10 trillion, which is no small figure. In some areas where prices have been raised, they should be lowered at once. If local authorities wait until state purchase quotas are introduced, it will be too late. Readjusting grain prices will be a major undertaking, but it is something that must be done. Otherwise, the state will lose a large sum of money, which is unacceptable.

Under the new system of dual management of grain, there are likely to be inequalities in the consumption of different types of grain. In areas where fine grain [rice, wheat] is produced, people will eat more fine grain, while in areas where it is not, people will have to rely on coarse grain. There are also likely to be discrepancies in the proportion of land devoted to cultivating cash crops as opposed to grain. We have said that each locality should be basically self-sufficient in grain, but some local governments stress self-sufficiency to the neglect of the needs of the state. In certain areas the local authorities have increased the amount of land devoted to cotton in spite of the fact that the per-unit yield of cotton there is relatively low. Take northeast China, for example: next year the authorities there plan to allocate an additional 67,000 hectares for cotton production. In fact, the area is not suited to growing cotton; it is good for growing coarse grain. If the region produces large amounts of coarse grain, some of it can be used to supply other areas.

In short, we must remedy not only the weaknesses in the old system of completely centralized management of grain, under which local authorities

could take no initiative or responsibility, but also the possible weaknesses in the new system of management, under which responsibility is shared by central and local authorities. At this conference, we should discuss and decide on the principles that will govern central planning and the division of responsibility among governments at different levels.

Of the four questions I have discussed, I have emphasized the importance of state purchase quotas. A shortage of grain will be a basic problem in China for a long time to come, so we have no choice but to adopt purchase quotas. The longer we delay, the more serious the situation will become, and the harder it will be for us to take the necessary action.

To sum up, we must institute state purchase quotas for grain in rural areas and rationing in cities and towns. This system can be called “planned purchase and supply” or “state monopoly of purchase and marketing”.<sup>141</sup>

## MEASURES TO ENSURE A SUFFICIENT SUPPLY OF COOKING OIL

*November 13, 1953*

Cooking oil is in short supply, particularly in Shanghai, Guangzhou, Tangshan and other cities. This shortage is not a temporary condition but a longstanding, fundamental problem. Since the restoration of the national economy, production of most of the major industrial and agricultural products has exceeded the level that prevailed before the War of Resistance Against Japan.<sup>142</sup> This is not true, however, of oil-bearing crops, the output of which remains much below the former level, so that the amount of cooking oil produced is only 76 per cent of the prewar figure. Nevertheless, annual sales of cooking oil at home and abroad have increased rapidly—by about 100,000 tons on the domestic market and by more than 80,000 tons abroad. This is the fundamental reason for the present shortage.

The Financial and Economic Commission of the Government Administration Council<sup>7</sup> has analysed the country's production and marketing of cooking oil and proposed measures to ensure a sufficient supply in future.

1. *Production of cooking oil.* In 1935, before the war, 2.22 million tons of oil were produced from oil-bearing crops. By 1952 the figure had dropped to 1.69 million tons, a decrease of 530,000 tons. Only half as much rapeseed and sesame seed was produced as before the war and only three-quarters as many peanuts. The total area devoted to such crops did not decrease, but the per-unit yields dropped sharply, because the peasants were only interested in increasing grain production and neglected other crops.

This was due to policy mistakes on our part. In 1952, mistakenly thinking there was plenty of oil, we purchased only a very small quantity at a relatively low price. This naturally discouraged the peasants from trying to increase the output of oil-bearing crops. This year's natural disasters have

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Report from the Financial and Economic Commission of the Government Administration Council to the Central Committee of the Chinese Communist Party. Two days later the Central Committee approved the report and decided on a national plan for the purchase of oil-bearing crops.

caused a further drop in yields, particularly for peanuts. The peanut-producing areas, such as Shandong and Hebei, have all experienced decreases in yields. The net result is that according to estimates, the total output of cooking oil this year will be 108,000 tons less than it was last year.

2. *Cooking oil for the domestic market.* Sales of cooking oil on the home market have been rising year by year. The amount sold by state trading companies in cities was 200,000 tons in 1951, 290,000 in 1952 and 390,000 in 1953. The amount sold by cooperatives in the countryside has also been increasing steadily. In areas where oil-bearing crops were produced, cooperatives themselves have been pressing oil because they wanted more oil cakes.<sup>143</sup> Thus, the supply in rural areas has increased. But sales there have also increased, and that has put a strain on the supply in urban areas.

In addition, because of the increase in exports, the amount of oil available on the domestic market has been steadily decreasing, dropping from 1.02 million tons in 1952 to 970,000 tons in 1953. Only 895,000 tons are expected for 1954. In 1953 the market shortfall could be made up from stock on hand, but in 1954 a decrease in state purchases, an increase in sales and inadequate stocks will make the supply even tighter.

3. *Cooking oil for export.* In 1936 China exported 268,000 tons of cooking oil. In 1952 we exported 290,000 tons, exceeding the prewar level. In 1953 the amount increased to 337,000 tons, representing 21.3 per cent of total output—a very large proportion.

The increase in export volume resulted, on the one hand, from the large demand for oil by the Soviet Union and other countries and, on the other hand, from our desire to earn more foreign exchange and to barter oil for materials for capital construction (one ton of cooking oil can be traded for four tons of steel). Also, in 1953, when we increased exports by 80,000 tons over the prewar level, it was partly because we mistakenly thought that there was too much oil left in stock from 1952—a miscalculation on our part.

4. *Relative market share of state enterprises and private enterprises.* Over the last three years, in both the domestic and foreign markets for cooking oil, great changes have taken place in the relative importance of the public and private sectors. In the domestic market, state stores and cooperatives accounted for 44 per cent of purchases in 1951, 64 per cent in 1952 and 74 per cent in 1953. The percentages for sales were almost the same. In the export market, state trading companies accounted for 75 per cent of total sales in 1951, 77 per cent in 1952 and 87 per cent in 1953. This means the socialist sector of the economy has gradually expanded. In the second half of 1953, because we stopped exporting flaxseed, leaf-mustard seed and others, the proportion of private exporters has diminished even further. Also, in the

domestic market, because of oil shortages in east China and other areas, we have tightened control over private merchants. Thus, with the steady expansion of state stores and cooperatives, the private sector of the economy has been shrinking.

The solution to the problem of tight oil supply is to expand production of oil-bearing crops. To this end, we should increase per-unit yields, plant more farmland to rapeseed and make full use of uncultivated sandy soil to grow more peanuts. We should try to increase production of crops such as tea seed, sunflower seed and hempseed, which do not interfere with grain production. The Ministry of Agriculture will propose concrete measures to accomplish this, and local authorities should provide leadership in the effort to increase yield. The Ministry of Commerce, meanwhile, will raise the purchase prices of oil-bearing crops.

It should be pointed out that we cannot increase production of these crops immediately. We should therefore take the following six measures to ease the oil shortage in 1954:

1. *Introduce a system of planned purchase—that is, a state monopoly of purchases.* The state should buy oil-bearing crops at the same time it buys grain.

In fiscal year 1953 (October 1953 through September 1954) the state will purchase 872,000 tons of shelled peanuts, 311,000 tons of sesame seed, 431,000 tons of rapeseed, 92,000 tons of flaxseed, 12,000 tons of leaf-mustard seed and 26,000 tons of tea seed. All these will be converted into 685,000 tons of cooking oil. In addition, 150,000 tons of oil will be extracted from soybeans purchased by the Ministry of Grain and another 150,000 tons from cottonseed purchased by cooperatives. This will make a total of 985,000 tons of cooking oil.

The planned purchase will be conducted as follows. In areas where peanuts and sesame seed are the major crops, the authorities of each greater administrative region<sup>11</sup> will divide the oil quota set by the central government among the provinces under its jurisdiction, to be passed down to the prefectures and counties along with the grain quotas. In these areas, because most of the crops are produced for sale, the state can buy a larger proportion of them than elsewhere: 70 per cent for peanuts and 65 per cent for sesame seed.

In other areas where peanuts and sesame seed are also produced, the authorities of the greater administrative regions will allot quotas to the provinces in accordance with the anticipated yields of the various localities. The quota for these crops will be included in the grain quota; that is, peanuts and sesame seed may be substituted for part of the grain. Purchase prices for

oil-bearing crops will be fixed in such a way as to encourage peasants to make the substitution. The prices will be set by the Ministry of Commerce.

2. *Tighten control over private oil merchants.* In areas where the state has established a monopoly of the purchase of oil-bearing crops, private merchants will be forbidden to buy them from the peasants. Whether, after the state purchase quotas have been fulfilled, surplus crops may be sold to local private oil mills or only to state trading companies or cooperatives will be decided after further discussion. In areas where the state has not yet established a monopoly of these crops, private merchants will still be permitted to buy and sell them.

3. *Introduce a system of planned supply—that is, a state monopoly of sales.* In 1954 the planned supply of oil must be introduced in all cities. In rural areas more households lack oil than lack grain, but the ration for each person is hard to determine. The peasants will be unhappy if it is too low, but if it is too high, we shall not be able to guarantee it. Further studies will therefore be made to determine exactly where the new system should be instituted and how it should work. The system of planned supply will be established a little later for oil than for grain.

4. *Expand the supply of cooking oil.* 1) Sell 80,000 more tons of kerosene, so that some of the vegetable oil now used as lamp-oil can be sold as cooking oil instead, 2) substitute animal fats for some of the vegetable oil used in industry, 3) increase the yield of extraction by processing a portion of the crops by machine instead of by more primitive methods, and 4) experiment with extracting oil from millet husks and animal bones.

5. *Reduce the amount of oil exported by 100,000 tons in 1954.*

6. *Centralize control of the state stores and cooperatives that deal in cooking oil.* In order to establish a state monopoly of purchases and prepare for a state monopoly of sales, we should expand the oil company under the Ministry of Commerce and let it coordinate the operations of state stores and the cooperatives.

## INCREASING THE PRODUCTION AND SALE OF NON-STAPLE FOODS

*November 28, 1953*

Non-staple foods are daily necessities for people living in the cities and in industrial and mining areas. Indeed, these people consume more non-staple foods than grain. Since non-staple foods are produced in scattered areas and sold only at certain times and in certain places, it is hard to maintain a steady supply at all seasons and in both town and country. So if we don't control the sale of these foods and regulate the market, the demand for them will exceed the supply and prices will rise, making it harder for people to manage.

Having submitted a report on cooking oil to the Central Committee, the Central Financial and Economic Commission<sup>7</sup> has also held special meetings to discuss the production and marketing of several other principal non-staple foods, such as pork, eggs, aquatic products, vegetables, dried foodstuffs and fruit. During the holidays—May Day, Mid-autumn Festival, National Day [October 1] and Spring Festival [Lunar New Year]—there is a shortage of these goods in the big cities and the industrial and mining areas. Moreover, the supply of pork and vegetables in some cities often falls short of demand at other times as well. State stores in those cities and areas should, therefore, try to stock more of these foods as soon as possible.

The present situation with regard to the production and sale of various non-staple foods is as follows.

1. *Pork*. By the end of 1953 China will have raised 90 million pigs, of which 50 million will be sold for pork: 22.5 million for the cities and towns, 500,000 for the military, 2 million for export and 25 million to be sold in the countryside. This amount, together with the 26 million head the peasants themselves will consume, will come to 51 million. A city dweller consumes about 10 kg. of pork a year, while a peasant consumes only about 5.5 kg., a

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Report from the Financial and Economic Commission of the Government Administration Council to the Central Committee of the Chinese Communist Party, which approved it on December 1, 1953.

ratio of nearly two to one. But state stores and cooperatives sell only a small amount of pork (6.4 million head of pigs), 13 per cent of the total.

Comparing the amount of commodity pork available with the demand in the cities and in the industrial and mining areas, we can see that if we can organize the supply properly, there need be no shortages and no black market. Again, comparing the amount of commodity pork available with the amount exported, we can see that it would be possible to export more. As long as we can exchange one ton of pork for five tons of steel, it would be important for us to increase exports to promote economic development.

There are five reasons for the current shortage of pork.

First, pigs are bred in scattered areas throughout the country, and it is dangerous to transport them for sale in distant markets, because they may easily be injured or die in transit.

Second, our purchases are concentrated in a few areas. The number of pigs bought by the China National Foodstuffs Export Corporation in east China alone, especially in northern Jiangsu and eastern Shandong, accounts for 69 per cent of the total national figure. Companies trading in local specialty products and cooperatives do buy some pigs in other parts of the country, but only small numbers of them in remote areas far from railway lines or highways.

Third, many dealers buy pigs, and we cannot centralize control of this business. State companies trading in local specialties, companies exporting foodstuffs, cooperatives and even private merchants buy pigs mainly in places along railway lines or highways or in the major pig-raising areas. There is no overall plan. Dealers do not go to mountainous or other areas with poor transport facilities for fear of losing money. According to preliminary estimates, in the nation's major pig-raising areas—Hebei, Shandong, Jiangsu, Zhejiang, Anhui, Henan, Jiangxi and Hunan provinces—this year 3.5 million head will never reach the market.

Fourth, there are too few processing plants where pork can be frozen, and they are concentrated in just a few cities. So even when large numbers of pigs are put on the market, we cannot buy and slaughter them in quantity because we don't have the facilities to preserve the meat. Therefore, it is hard to supply pork all year round throughout the country.

Fifth, the supply of pigs is endangered by epidemics. In years past, swine pneumonia and swine fever have killed off as much as 10 per cent of the total stock. Swine erysipelas is a serious concern in Shandong, Jiangsu, Zhejiang, Hunan and Jiangxi provinces, as is swine measles in Hebei.<sup>144</sup>

In 1953 as a whole, the supply of pork was sufficient to meet the demand, but it was not evenly distributed all year round throughout the

country.

The solutions to these problems are to establish an organization that will centralize the purchase of pigs and buy them in more areas; to produce more refrigerating equipment; to promote the prevention and treatment of swine diseases; and to expand production to meet the growing demand.

2. *Eggs*. It is estimated that for 1953 the total national production of eggs will come to 14.4 billion (assuming that each of the 100 million peasant households raises two hens, and that each hen lays 70 eggs a year). Of course, the peasants themselves will have consumed 8 billion, and 6.4 billion will have been sold (1 billion on the export market, 300 million to the military and 5.1 billion to city dwellers). One-third of these commodity eggs will have been sold by state stores and cooperatives.

The major egg-producing areas are Hebei, Suiyuan, Henan, Hubei, Hunan, Jiangxi, Shandong, Jiangsu, Zhejiang and Anhui.<sup>145</sup> The eggs from these provinces account for 60 per cent of the national total. Since eggs are produced in extremely scattered areas, it is not possible to collect and transport large quantities to distant markets, because so many will be broken en route.

Fresh eggs are seasonal products. Seventy per cent of the annual total is produced during the peak period, from March to early July. The problem is that it is not easy to preserve eggs, so we cannot supply them all year round. Moreover, cold-storage facilities and the processing plants that make dried egg powder are concentrated in a few large and medium-sized cities, and urban bakeries would rather use fresh eggs than ones from cold storage or dried powder. That also makes it hard for us to meet the off-season demand. During the peak season, the peasants compete to sell their eggs, while during the off-season there is usually a shortage in the cities.

In addition to meeting domestic demand, we should increase production of eggs for export. In 1930, before the War of Resistance Against Japan, China exported 3.1 billion eggs, but in 1953 only 1 billion. Since 20,000 eggs can be exchanged for 5 tons of steel, we should try to export more eggs.

What we must do to solve these problems in the production and sale of eggs is to keep more eggs in cold storage and convert more of them into dried powder during the peak season. Then, during the off season, we should try to persuade city dwellers to accept these products as substitutes for fresh eggs.

3. *Aquatic products*. In 1952 the supply of these products exceeded the demand. It is estimated that for 1953 the volume sold will be 1,750,000 tons. (1,200,000 tons of seafood and 550,000 tons of freshwater products). For the year as a whole, supply and demand have been balanced. State stores and cooperatives sell only a small amount of aquatic products, less than 20 per

cent of the total.

These foods too are distinctly seasonal. In fishing season, because we don't have adequate equipment and transportation we cannot freeze or salt large quantities and transport them to distant markets. As a result, these products are often left to rot and the price falls. A city dweller in the north can buy an average of only 2 kg. of fish each year, while one in the south can get two to four times that amount.

China abounds in aquatic resources, and its annual output is estimated at 4 to 8 million tons. If we can increase refrigerating facilities in the fish-producing areas and preserve more products in salt, thus selling more of them, it will be possible to reduce the domestic consumption of pork and earmark more for export. That will benefit both fishermen and consumers.

4. *Vegetables.* At present the state stores and cooperatives sell about 20 per cent of the total vegetable output in the cities. Usually the supply is sufficient in large cities, but during holidays there is a slight shortage. In the new industrial and mining areas and in places where army units are stationed, supply often falls short of demand.

As the urban population increases, more and more buildings go up in the suburbs, occupying much land formerly used for growing vegetables. In constructing the new projects, we usually neglect to retain plots for cultivation, and there is a steady decrease in arable land. In addition, we cannot expect to increase output simply by applying fertilizer for a year; we have to master new techniques. Consequently, there is only a small supply of vegetables, while demand is steadily increasing, and the gap between the two is growing wider every day.

To solve the problems in the production and marketing of vegetables, we should do the following. First, organize production. Since vegetables can be supplied only to areas near the places where they are grown, and since state stores cannot handle large quantities, cooperatives for producing vegetables should be established in the suburbs, under the leadership of local Party committees and governments. Second, keep the area devoted to vegetables in proportion to the population. According to rough estimates, each city dweller needs 125 kg. of vegetables a year, and one *mu* of land [1 *mu* = 1/15 hectare] can produce 3,500 to 4,000 kg. Thus, for every thirty people we need one *mu* of cultivated land. Third, urban consumers' cooperatives should establish vegetable markets, buy more from producers and store more vegetables in cellars. Fourth, state stores should transport certain vegetables, including cabbages, radishes, onions and garlic, to other places to meet the needs of city dwellers during holidays.

5. *Dried food products.* In 1953 the total production of bean-starch

vermicelli, hot pickled mustard tubers, edible fungus, dried day-lily flowers and black mushrooms will come to about 150 million kg., most of which will have been offered for sale. State stores and cooperatives now sell more than half of this total. However, so far they have not handled any coarse grain [corn, sorghum, millet, etc.] or bean products, such as bean curd, bean sprouts and thick broad-bean sauce. Because dried food products are easy to store, they can be sold throughout the country. As the urban demand for them grows, state stores and cooperatives should sell more of them to help alleviate the shortage of non-staple foods.

6. *Fruit.* At the National Conference on Local Specialty Products, held by the Ministry of Commerce not long ago, the annual national output of fruit was estimated to be about 2.95 million tons. State stores and cooperatives deal only in such fruits as apples, oranges and bananas, which can be transported to market over long distances and exported. In areas that produce those fruits, they purchase more than 60 per cent of the crop; other fruits, including pears and persimmons, are handled mostly by local private merchants. At present there is an adequate supply of fruit for sale. But as the domestic and foreign demand will grow, state stores and cooperatives should begin putting more on the market.

To increase the production and sale of non-staple foods, we should do the following.

1. Recognize the need to supply these foods. Until now, state stores have concentrated on grain, cotton yarn and cloth and other important everyday necessities, to the neglect of non-staple foods. They had no choice but to do so, because they had limited financial resources. However, as the economy develops and the people's standard of living rises, in the cities they should begin to handle non-staple foods as well, in a planned way. Again, people living in the cities and in industrial and mining areas consume more non-staple foods than grain. The availability of such foods is very important to the working people, so state stores should make a point of supplying them. They should work closely with the cooperatives and gradually expand their wholesale and retail business, carrying a greater variety of non-staple foods to meet the demand. At the same time, we should make sure that there will be a certain amount of such foods available for us to export in exchange for the industrial equipment we need for economic development.

2. Establish a national foodstuffs corporation under the Ministry of Commerce to be responsible for purchasing, marketing and exporting non-staple foods.

3. Purchase non-staple foods in more areas and build more refrigeration facilities. Most non-staple foods are seasonal and perishable. We don't have

enough cold-storage facilities, freezing facilities and refrigerator trucks to be able to stock large quantities or transport them over long distances. This makes it difficult for us to buy, sell and export such foods and to regulate the supply. Taking into account the amount to be purchased and sold in the next few years, the Ministry of Commerce should propose a plan for building more cold-storage facilities, freezing facilities and refrigerator trucks each year.

4. Through state stores and cooperatives, ensure the supply of non-staple foods to the 40 million people in the 99 big and medium-sized cities and industrial and mining areas (14 municipalities directly under the central government, 11 industrial and mining areas, 26 provincial capitals and 48 other medium-sized cities).<sup>146</sup> According to initial estimates, in 1954 people in these places will consume 17.2 trillion yuan's worth<sup>2</sup> of non-staple foods (an average of 430,000 yuan's worth per person). State stores and cooperatives should handle 8.4 trillion yuan's worth, or 48 per cent of the total. But we should not distribute these foods equally. We should first increase the quantity sold by state stores and cooperatives in large cities and in industrial and mining areas, letting them handle 60 per cent of the pork supply and 20 to 40 per cent of vegetables. In medium-sized cities and in southwest and northwest China, the percentages can be smaller, but in the Northeast they should be greater.

5. Provide more effective leadership and carry out a division of labour and responsibility. The Ministry of Commerce will be in charge of regulating the non-staple foods business throughout the country. At the same time, under the leadership of local Party committees and financial and economic commissions, various local authorities should determine the proper proportion of business for state stores, cooperatives and private merchants in their localities. They should draw up plans for buying and selling non-staple foods, taking into consideration the demands in both the cities and the countryside as well as on the domestic and world markets.

State stores and cooperatives should make the following division of labour: State stores should handle the wholesale purchase and export of meat, eggs and fruit. Urban consumers' cooperatives should establish the necessary vegetable markets and sign contracts with producers' cooperatives in the suburbs for the purchase of vegetables. State stores and cooperatives should continue to sell aquatic products until a foodstuffs corporation is established. Both state stores and cooperatives should undertake the wholesale of dried food products. The Ministry of Grain will be responsible for purchasing coarse grain from the peasants, while the Ministry of Commerce will supply it to city dwellers.

6. Increase production. Now that the economy is growing, people's living standards are steadily rising and exports are increasing, we have to produce more non-staple foods. While increasing the output of grain, we should raise more livestock and grow more fruit and vegetables. We should also do more to prevent and treat swine diseases. The Ministry of Agriculture should make a special study of these matters and take the appropriate action.

## **TOP LEADERS MUST RAISE THEIR REVOLUTIONARY CONSCIOUSNESS**

*February 10, 1954*

To safeguard Party solidarity and keep the Party from splitting is primarily the responsibility of the top leaders. As a matter of fact, our Party has split on several occasions. Zhang Guotao and others once split the Party, causing great harm to the revolutionary cause, although in the end we were able to restore unity.<sup>147</sup>

Now at this Fourth Plenary Session of the Seventh Party Central Committee we again have before us a draft resolution that calls for the strengthening of Party unity.<sup>148</sup> What does this resolution mean? It can be interpreted as a warning that ambitious people like Zhang Guotao can be expected to emerge again, and that unless we are vigilant, there may be unfortunate occurrences that weaken our solidarity or even split the Party. Of course, it is discouraging to talk about such dangers, but we have to face reality.

Many of our comrades used to believe that careerists like Zhang Guotao could no longer exist in our Party. They argued that, first, our Party has a history of more than 30 years, and the revolution has been victorious; our cadres have been through many trials, and they do not want ambitious men like Zhang Guotao in the Party. Second, they said, so long as we strengthen Marxist-Leninist education in the Party, it will be impossible for careerists to find a place in it. Third, now that we have Chairman Mao, it is not likely that such men can come to the fore—an argument based on the hope that Chairman Mao will live forever.

Even today these reasons sound very convincing, but in my opinion the three safeguards alone are not enough to ensure that careerists like Zhang Guotao will never again emerge. Our Party exists in a class society. We haven't yet abolished classes, and even after they have disappeared, class

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Excerpt from a speech delivered at the Fourth Plenary Session of the Seventh Central Committee of the Chinese Communist Party, held in Beijing from February 6 to 10, 1954.

ideologies will linger for a long time. Under these social conditions, such ideologies will surely find expression in the Party. Quite a few of our senior cadres have individualistic ideas, to varying degrees. If ever the atmosphere were favourable or the opportunity presented itself, those individualistic ideas could grow to enormous proportions.

We used to assume that once we had made the revolution it would be impossible for another Zhang Guotao to come forward. We now believe just the opposite—it is easier for such persons to rise in a country where the revolution has triumphed than elsewhere. And it is also easier for them now than in the years when we were doing underground work in the cities or waging guerrilla war in mountain valleys. After all, for what purpose did we join together—to make a revolution or to become officials? The question is easy to answer. Originally we came together to work for the revolution. Later on we also held official posts, working for the revolution in the capacity of government functionaries. But the higher some people rose, the more they became puffed up with their own importance. [*Laughter.*] They only wanted to be officials, not revolutionaries, and completely forgot about the revolution.

In a country where the revolution has triumphed, there are films and photographs celebrating the leaders. When we attend meetings, we are greeted with warm applause; when we review troops, we feel powerful and important; when we arrive in railway stations, people give us flowers and line the streets cheering. Moreover, we have abundant opportunities to enjoy material benefits, which could have a corrupting effect. It was hard for us to lead a corrupt life in the days when we were in Ruijin and Yan'an, but now it is easy. Now that we have come to power, we must not be complacent about the situation in the Party.

So I think those well-meaning people who hope that careerists will never again emerge in our Party are likely to be disappointed. It is risky to cherish that hope.

Comrades who are being criticized at this session may adopt one of two attitudes: they may either correct their mistakes or refuse to do so. Right now they are engaging in self-criticism. That is good, though some of their self-criticisms may not be thorough enough. As Comrade Qu Qiubai once said, it is hard to make a water buffalo change direction.<sup>149</sup> Many cases bear out his remark. Nevertheless, I still sincerely hope these comrades will mend their ways.

But I want to raise a question: Even if these comrades correct their mistakes, can we rest assured that no one else will make the same mistakes in future? Zhang Guotao is a man of the past, but can we be sure there will

never be a Li Guotao or a Wang Guotao? We should never rule out that possibility; otherwise we shall be making a mistake ourselves. It would be better to expect the worst. Whether future troubles will be, like those caused by Zhang Guotao, serious enough to split the Party and the army, depends on the circumstances. Troubles will surely arise, but whether they have grave consequences depends on the particular conditions at the time. We must not be lulled into a false sense of security or take it for granted that the unthinkable will never happen in the Party.

It is good to strengthen Marxist-Leninist education within the Party, but I don't think education is enough to ensure that a Li Guotao or a Wang Guotao will never emerge. There is no doubt that Marxist-Leninist education will play an important role. It is because we believed in Marxism-Leninism that we joined together to make the revolution. So of course, we must strengthen Marxist-Leninist education in the Party. But I don't think that alone will keep us from every danger. Was not Zhang Guotao a veteran Party member? Did he not receive at least as much Marxist-Leninist education as the rank-and-file cadres? Nevertheless, he betrayed our Party. What does this prove? It proves that Marxist-Leninist education alone is no guarantee that careerists will never appear in the Party.

Some comrades say that with Chairman Mao as our leader, careerists will never emerge in the Party. I'm afraid that argument doesn't stand up either. Certainly, Chairman Mao is a great leader whom the Party rallies around, but can this ensure that another Zhang Guotao will never come forward? In my opinion, it can only ensure that there will be fewer men of that sort and that they will rise more slowly.

With Chairman Mao at the helm, when activities intended to split the Party are discovered, the problem can be easily and quickly solved. Chairman Mao himself, however, cannot ensure that no one will ever undertake such activities. "Long live Chairman Mao" is a political slogan—physiologically, Chairman Mao is not immortal. It might seem inappropriate at this Fourth Plenary Session to say that Chairman Mao cannot live forever, but we are materialists and we know that it is true.

As we think it over, then, can we find a way to prevent ambitious men from rising in the Party leadership? Is there any way to ward off the danger of the Party's being split? In my opinion, the only reliable way, the only one that can be passed on to the next generation, is to raise the revolutionary consciousness and vigilance of top leaders. We, the top leaders sitting here today, are in our forties, fifties, sixties or seventies and shall pass away one by one, but at the same time others will come along to replace us. We cannot be sure that none of them will be ambitious men interested only in their own

advancement, but we can find a way to minimize any trouble they may cause.

When such people appear, what will determine the extent of the trouble? I think that depends on the several hundred top leaders, that is, the cadres at and above the level of secretary of a provincial or municipal Party Committee and senior cadres in the army. Provided these people have a high revolutionary consciousness and vigilance, even if another Zhang Guotao appears, he will easily be exposed. Otherwise, when careerists appear, they may succeed in stirring up dissension and even splitting the Party. Where will the serious trouble arise? Precisely among these several hundred people, especially among those sitting here today in your civilian or military uniforms—leaders of the Party, the government and the army. If careerists appear, shall we be able to expose them promptly and avoid serious trouble? That also depends on these same people. So long as we keep our wits about us, our victory in the revolution will be safeguarded.

Senior cadres should heighten their revolutionary vigilance and keep their eyes and ears open. I think that is the only reliable safeguard for Party unity. To that must be added one more point: we should strictly observe the Party's rules and regulations and maintain its excellent work style. That will ensure the unity of the Party. I think we can rely only on ourselves.

Senior cadres should not let themselves be carried away by success. Let's think back: Since the Seventh National Party Congress in 1945, the few leaders who made serious mistakes were conceited and bore a heavy burden, the belief that they were always correct.<sup>150</sup> People who bear this burden are bound to make mistakes. So we must be on guard against that attitude.

I do not mean it is good to make mistakes, but comrades who have not made any and whose work has been going smoothly should be very careful. And those who have made mistakes may work correctly for a time, but they must be very careful too, lest they become conceited again and make more mistakes. Comrades, you should be on your guard when people applaud your performance. A person can respond to applause in two ways: by being modest or by becoming conceited. Those who become conceited will get into trouble.

## EXPLANATORY REMARKS ON THE FIRST FIVE-YEAR PLAN

*June 30, 1954*

The First Five-Year Plan has gone through five drafts since 1951.<sup>151</sup> The first three were prepared by the Central Financial and Economic Commission<sup>7</sup> and the fourth by the State Planning Commission. I have been in charge of preparation of the fifth, and we have been working on it since last March.

In this latest revision, the part concerning the state sector is based on sound calculations. Some other parts, however, are by no means reliable, such as those concerning agriculture, handicraft industry, and capitalist industry and commerce, which together make up a very large portion of the economy. These parts can only serve as “indirect planning”.<sup>152</sup> Because we have little experience in this area and because there are not enough data to rely on, the figures in these sections of the plan can only be tentative and subject to revision in practice.

Now that the First Five-Year Plan has been in effect for a year and a half, I should like to discuss a few aspects of it.

### I. AN ESTIMATE OF THE PROBABLE RESULTS OF IMPLEMENTATION OF THE PLAN

*Industrial production.* Total output value of industry (including handicraft industry) is expected to increase by 15.5 per cent a year and possibly more.<sup>153</sup> However, the output of certain major products, such as steel and cotton yarn, will not surpass their targets, and the output of some other products will probably not even reach theirs. The increase in total industrial output value during the period of the First Five-Year Plan will have to be

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Excerpt from a report to the Central Committee of the Chinese Communist Party.

achieved mainly by existing factories and new ones that we ourselves design. Only a few of the 141 projects that the Soviet Union is helping us design and build will actually go into production during this period, and they will provide only 4 to 6 per cent of the total output value.<sup>154</sup> Most of these projects will be put into operation only during the period of the second five-year plan and some not until the third. Those of the newly built factories and mines, including these 141 projects, that will go into operation during the period of the present plan will contribute only about 25 per cent of the total industrial output value, while about 75 per cent will come from facilities built before 1949.

*Capital construction in industry.* The plan envisages construction of 615 above-norm projects (maybe more).<sup>155</sup> Some of these, including the 141 Soviet-aided ones, may be subject to delays. The main reasons for this are that we don't have enough technicians in China, available data are not reliable and we need more time to translate material from Russian. In addition, there are many problems in getting deliveries from the Soviet Union, so we may not receive complete sets of equipment on time. As a result, construction of certain projects may often have to be suspended. At the same time, factories all over the country are already contributing to large projects such as the Anshan Iron and Steel Works and the Changchun Automobile Plant, and when construction of all the 141 projects begins, the country's resources will be stretched even thinner. Large-scale capital construction will begin in 1956 and 1957, and then we shall have a hard time. We shall inevitably encounter many difficulties. In particular, there will be a serious shortage of cadres at the lower level, and it will take time for the cadres to gain experience. While we must try to finish the 615 above-norm projects as scheduled, we should prepare for the possibility that some will not be completed on time. If we see that is going to happen, we should make an announcement to that effect, specifying which projects are involved.

*Agricultural production.* During the period of the First Five-Year Plan, total output value of agriculture will have to increase by five per cent a year, which will mean an overall increase of 28 per cent in 1957 as compared with 1952.<sup>156</sup> We expect to achieve this increase mainly by raising per-unit yields, not by bringing wasteland under cultivation. We should anticipate that grain production will increase slowly. In the 38 years between 1913 and 1950, per-unit yields in the Soviet Union increased by only 41 per cent. It will be hard for us to fulfil the agricultural plan, which will mainly depend on the cooperative transformation of agriculture.

*Railway transportation.* This will undoubtedly be difficult. If the output of manufactured goods exceeds the planned targets in certain areas, some

sections of the railways will not be able to handle the load. We should therefore plan to increase investment in the railways every year, so as to expand and improve certain sections.

*Socialist transformation.* The plan to transform agriculture, handicraft industry, and capitalist industry and commerce can be fulfilled and possibly exceeded.

In short, the weakest part of the plan is agricultural production, and it is hard to say whether we shall reach the targets in that area. In industrial production we can reach our goals, in capital construction we can probably come close, in railroad transportation we shall have difficulty fulfilling the plan, and socialist transformation can be accomplished according to schedule.

## II. PROPORTIONATE DEVELOPMENT

### 1. *The proportion between agriculture and industry.*

Even if the plan for agricultural production is fulfilled, there will still be barely enough grain to meet the growing needs of the urban population and the increasing demand of industrial production. Within the five-year period the amount that can be added to the grain already in storage will be only 12.75 million tons. At the end of June 1953 we had 9.75 million tons of grain on hand. This means that by the end of 1957 we shall have a total of only 22.5 million tons—and that includes the grain that is being processed or in transit. Since we sold 4 million tons of grain in May alone, we can calculate that in the event of a crop failure, the grain in storage would supply the country for only five or six months.

There will not be much increase in the supply of cooking oil over the five-year period. If each person were to receive just an additional half kg. of oil a year, the national total would be 300 million kg. To produce that much, we would have to devote an additional 20 million *mu* [1 *mu* = 1/15 hectare] of land to oil-yielding crops, and it would be hard for us to do that.

To fulfil the plan for cotton production, the average yield must reach 19 kg. per *mu*. Although it may be possible to attain that yield in north China, it will be hard to raise the current national average of only 15 kg. per *mu* to 19 kg. But if we were to devote more land to cotton, that would mean reducing the areas planted to sorghum, corn and millet, and that would create problems in the supply of fuel and animal feed. If the output of cotton does not reach the figure projected in the plan, we shall have even greater problems in meeting demand than we do now.

There are three ways to increase agricultural output: 1) by bringing wasteland under cultivation, 2) by building more water conservancy projects, and 3) by organizing cooperatives. We must make use of all three, but the most effective way at present is to organize cooperatives.

1) *Bringing wasteland under cultivation.* If we could reclaim 500 million *mu* of land, they would yield 40 to 50 million tons of grain. But it would be hard for us to do that even in ten years, since we do not have the necessary farm machinery. To reclaim 500 million *mu* of land we would need to have about 250,000 tractors, and to run the tractors we would need to refine more than 10 million tons of crude oil into diesel oil. However, we shall not have even 100,000 tractors until we are in the period of the second five-year plan, and it will also take time to find that much crude oil. We can only open more wasteland on large tracts with small populations, and that requires machinery. To reclaim land in Xinjiang, we would have to build about 4,000 km. of railway lines and water conservancy projects costing about 1 million yuan<sup>2</sup> per *mu*. We do not have adequate resources for either. Would it be possible, then, just to open 50 million *mu* more than we planned? I think even that would be difficult. First, because it would require an additional investment of ¥25 trillion for organizing state farms; second, because we would have to import 30,000 tractors; and third, because we would have to send a large number of trained personnel to Xinjiang to do surveying for projects. In addition, we would have to build highways, railways and housing and send a workforce of 700,000 people there to do the farming. And after we had spent these enormous resources, we should still be able to increase the amount of grain by only 4 to 5 million tons a year. During this five-year period, therefore, the chief benefit to be gained from bringing wasteland under cultivation and mechanizing farms will be the experience and training provided to our cadres.

2) *Building water conservancy projects.* Large water conservancy projects are needed mostly in the northern part of the country. If all the water north of the Huaihe River were harnessed, 10.6 million hectares of land could be irrigated, which would enable us to increase grain production by 10 million tons. These would be very large projects, and it would take at least ten years to build them. Moreover, in relation to overall national needs, that amount of grain is not large.

3) *Organizing cooperatives.* According to past experience, average yields can be increased 15 to 30 per cent through the organization of cooperatives. Increasing the yields 30 per cent would mean an additional 50 million tons of grain. Furthermore, only by organizing cooperatives can we make the best use of other ways to increase agricultural output.

Organizing cooperatives is therefore the way that will cost the least and produce the fastest results. The state should provide more financial support for this endeavour.

Is the investment in agriculture too small and should we increase it? During the five-year period the investment in agriculture (including forestry and water conservancy projects) was originally supposed to be ¥49 trillion, which represents 9.5 per cent of the total expenditure for economic development.<sup>157</sup> It should be pointed out, however, that the latest draft plan provides for additional direct and indirect investment in the following items: water conservancy projects for local agriculture, ¥5 trillion; expenses for land reclamation to be carried out by the army, ¥5 trillion; rural disaster relief, ¥15 trillion; projects for harnessing the Yellow River, possibly ¥5 trillion; and long-term agricultural loans, ¥10 trillion. These items total ¥40 trillion. If we add to this the original investment in agriculture projected in the plan, the sum would represent not a mere 9.5 per cent of the expenditure for economic development but more than 15 per cent, which is no small amount. Insofar as possible, we should plan to allocate more funds to agriculture, trying to increase our investment in it every year.

*2. The proportion between light and heavy industry.*

It is stipulated in the First Five-Year Plan that the ratio of investment in light industry to investment in heavy industry should be 1:7.3, that is, they should represent respectively 12 and 88 per cent of the total.<sup>158</sup> However, what is holding back the expansion of light industry is not a lack of investment but a lack of raw materials. Some of these materials, such as cotton, oil-yielding crops, sugar beets and sugar cane, come from agriculture, while others, such as thin steel plate, aluminium and chemicals, come from heavy industry. Increasing the investment in light industry will not be much use until large quantities of these raw materials can be produced. As long as there is a shortage of raw materials, there is no point in opening new factories. Light industry still has a great deal of idle capacity, and equipment is not being used efficiently, so even a slight readjustment would help increase production considerably.

Light industry has great potential for development, not only in terms of idle capacity but also in terms of sources of capital. In addition to allocations from the state budget, investment may come from joint state-private enterprises, private enterprises and localities, and floating funds in society may also be attracted. If there is an urgent demand for certain products of light industry, new factories can be built easily and quickly. A cotton mill with fifty thousand spindles could be built in only a year and a half.

Therefore, we should maintain the current ratio of investment in light industry to investment in heavy industry.

*3. The relations between the different sectors of heavy industry.*

According to the First Five-Year Plan, the national defence industry is to receive a very large share of total investment. But to expand the national defence industry, we must also expand many civilian industries, and that will be difficult. Actually, many civilian factories have already been built to serve national defence, such as some special steel works, chemical plants, etc. The reason for this is that, unlike certain foreign countries that have built their national defence industries on the basis of well-developed civilian industries, China has a weak and backward industrial foundation, yet our national defence industry has to be developed rapidly. Under these circumstances we have no choice but to give priority to national defence. Working to accelerate the development of the national defence industry and to catch up with foreign countries in that area will also help to raise the technological level of China's industry as a whole.

The petroleum industry will not develop fast enough to meet demand. There will be a shortage of petroleum not only throughout the period of the First Five-Year Plan but throughout the period of the second as well. The problem now is to find more oilfields. When we discover a new, promising site, we must work hard to develop it.

In short, the main problems in heavy industry are: disproportionate funding for the defence industry, the backwardness of the petroleum industry and the shortage of coal and electricity. At present, there is no way we can change this situation.

*4. The relations between industrial development and railway transportation.*

Railway transportation will be inadequate for some time to come. We are not investing enough in it. In our successive plans for investment in this area, the amount of new track to be laid grows smaller and smaller, while the amount of old track to be repaired grows larger and larger. The 10,000 km. of new track originally projected in the First Five-Year Plan was reduced first to 6,000 and then to just 3,000. Because many factories and mines are being built near old lines, the freight load on those lines will get increasingly heavy as industry develops. At the same time, the cost of laying new track was underestimated. Originally each kilometer was calculated at ¥3.9 billion, but the current cost has actually reached ¥6.2 billion, so we have no choice but to reduce the total length of track to be built.

For the present, while preparing to build new lines, we should concentrate on meeting the needs of the 141 projects and on expanding freight capacity on existing lines. To fulfil the tasks set in the First Five-Year Plan,

we must increase investment every year, if necessary. The Ministry of Railways should make plans now to build extra lines that would cost ¥10 trillion in addition to the allocations it receives under the First Five-Year Plan, so that construction can proceed whenever money is available.

*5. The shortage of technicians.*

According to preliminary estimates, industrial and transportation projects in the First Five-Year Plan will require 395,000 technicians, but only 286,000 will graduate from universities, colleges and secondary technical schools—nearly 110,000 fewer than are needed. Naturally, a shortage of technicians will hamper construction of projects and lower the quantity and quality of products. It will be hard to solve this problem within ten years. We cannot postpone construction until we have enough technicians, and simply increasing investment will not make them available. There is also an insufficient number of college professors and students. One way to solve this problem is to have factories run more technical schools and training courses to produce skilled workers. In short, the pressing need to train cadres will be the most difficult problem we face in carrying out the First Five-Year Plan.

As I stated earlier, the development of the various sectors is not always proportionate, but for the time being we can only proceed in the ways I have described.

We must comply with the rule of proportionate development, but the specific proportions for different sectors of production will necessarily vary from one country to another and even from one period to another. Each country must determine the proper proportions in its plan, in accordance with its current economic conditions. It is hard to determine what those proportions should be. The only way is to see if the plan is indeed balanced. If it is balanced, development will be proportionate.

Because the economy is backward and because we have to catch up with other countries in a short period of time, it will be hard to maintain the balance between the various sectors in the plan. One of them must be given priority. In the short term this means industry, especially heavy industry. As industry develops, the other sectors have to expand. Under these circumstances, it will be hard to maintain a balance. We cannot afford generous funding in all areas and besides, if we try to do everything all at once, in all sectors, we won't achieve rapid growth in any of them. But while it may be hard to maintain the correct balance, we must never abandon the goal of proportionate development. Even though the budget is tight, we must try to maintain a rough balance between the various sectors.

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### III. MEASURES FOR CONTROLLING REVENUE AND EXPENDITURE

Can revenue be increased during this five-year period? I think that certain items, such as profits and taxes from enterprises, may rise but there will probably not be any great increase in overall income. If we raised taxes by ¥40 or 50 trillion, that would cause a rise in prices and a drop in real wages. So we cannot do that.

Can we cut administrative and military expenses any further? It would be difficult to cut administrative expenses in the next three years, because we cannot dismiss large numbers of government personnel. And if we want to cut military expenses, we must either reduce the number of troops or slow down the modernization of the army. I do not think we can plan to do that in these first five years.

Can we reduce investment in industry? Since we have decided to launch the 141 projects and must not delay doing so, we cannot reduce expenditures in this area either. Except for the 141, the industrial projects initiated by the First and Second Ministries of the Machine-building Industry involve only small investment.<sup>159</sup> That is also the case in the chemical, iron and steel, and nonferrous metals industries. In the past we considered three different plans for investment in industry. One plan was to invest only ¥265 trillion, which would have meant postponing many of the 141 projects. Another was to invest ¥328 trillion, which would have required us to raise an additional ¥20 or 30 trillion of revenue. As I said before, it would be difficult to do that. The current plan for investment of ¥292 trillion is the most feasible.<sup>160</sup>

How about reducing the reserve fund? That is not possible either. The reserve left for the next three years is ¥38 trillion, a very small sum representing only 4 per cent of total expenditures. In such a large country as China there are bound to be unexpected expenses. Moreover, experience shows that actual construction costs for industrial projects are usually higher than anticipated. For these reasons we must keep a certain amount of reserves on hand.

Any possible surplus in revenue cannot be included in the budget. If it were listed in the budget and immediately parcelled out, the financial departments would be left no room for manoeuvre. It would therefore be best to increase expenditures on certain projects, as needed, on a yearly basis, and only when we actually have the money on hand.

There are two tendencies in finance that must be combatted. One tendency is to spend money rashly, that is, to use all we have halfway through the period, so the budget collapses. The other tendency is to spend

money too sparingly, that is, not to use all the money allocated, thus holding back construction of projects. To avoid these two mistakes we must, on the one hand, make sure to maintain certain reserves and, on the other, prepare an annual plan for increasing investment, if possible.

If we keep ¥38 trillion in reserve over the next three years, in general, we shall not spend money rashly. If we prepare an annual plan for increasing investment in agriculture and the railways, we shall not spend money too sparingly.

According to the First Five-Year Plan, cash revenue and expenditure should be balanced. If anything untoward happens, it will be in the commercial departments, unless they can obtain sufficient loans.

The foreign exchange balance with Russia is precarious. To repay the loans now outstanding and import complete sets of equipment and other capital goods, we shall have to pay the Soviet Union 13.6 billion rubles during the period of the First Five-Year Plan. We must do all we can to avoid borrowing money abroad. To maintain a balance in income and outgo of foreign exchange, we must cut down on unnecessary imports.

#### IV. MAINTAINING OF A BALANCE BETWEEN PURCHASING POWER AND THE SUPPLY OF GOODS

By 1957, the total annual output value of consumer goods and means of agricultural production is expected to be ¥460 trillion.<sup>161</sup> But people's annual purchasing power will probably have reached ¥500 trillion, leaving a discrepancy of ¥40 trillion between supply and demand, or 8 per cent of the total value of supply. This kind of discrepancy already exists in both the urban and rural markets, but we are not sure exactly how large it is in each. There are two reasons for it. First, a huge proportion of available funds has been invested in capital construction of heavy industry, but it will be some time before goods are produced, and most of them will not be consumer goods anyway. Second, to ensure supply, we must carry out the planned purchase of agricultural products, with the result that the peasants, unable to hold back their products, will have large amounts of cash on hand.

It will be impossible to eliminate the gap between purchasing power and the supply of goods in the near future. But we cannot allow it to become too large, lest people start buying in panic and the peasants start holding on to their farm products. We must recognize that ¥40 trillion is no small figure. To solve this problem we should take a number of measures: 1) Produce more

agricultural, industrial and handicraft products. This is most important. 2) Try to sell manufactured goods in the countryside. 3) Export more agricultural products and import raw materials for light industry, such as combed wool, artificial fiber, and rubber. After these materials are turned into finished products, they can be sold in the countryside, and that will help withdraw currency from circulation. 4) Issue government bonds and encourage savings deposits. 5) Adjust the sales prices of agricultural and manufactured products. For instance, we should raise the prices of cigarettes, alcohol, sugar and other consumer goods and lower the prices of certain farm products. Our guiding principle is that although people may spend a little more money, their living standards should not drop but, on the contrary, rise a little. By adopting these measures we cannot eliminate the entire gap of ¥40 trillion, but we can reduce it considerably. In this way we shall be able to keep the market stable.

To narrow the gap between supply and demand we should use different methods consistent with the specific conditions of each locality, and we should not attempt to solve the problem in one year. I think it is a good idea to raise the purchase prices of agricultural products, to lower the prices of manufactured goods and to raise wages, and we should do those things. However, we should proceed carefully at the proper time and only when we are able to.

Finally, I should like to restate three important points.

First, although there are bound to be small changes in the figures projected in this draft of the First Five-Year Plan, the overall outline is set and cannot be changed.

Second, we must continue to balance revenue and expenditure every year in order to avoid wide discrepancies. At the same time, we must maintain a balance in the supply and demand of electricity, coal, timber and a number of other important commodities.

Third, since a great deal of the planning is indirect, local Party committees should invite more people to discuss the plan, and local governments must use their initiative in implementing it.

## **TIGHTENING CONTROL OVER THE MARKET AND TRANSFORMING PRIVATE COMMERCE**

*July 13, 1954*

1. Since nationwide economic development began in 1953, many new problems have arisen in our domestic market. One of the most important is that the supply of many commodities such as food, clothing and other daily necessities is unable to meet demand. This is because the state has invested heavily in economic and cultural projects, more people are working and payrolls have expanded. At the same time, agricultural production has increased and the purchase prices of farm products have been raised. All this means that purchasing power throughout the country has risen even faster than it did during the recovery period.<sup>142</sup> Indeed, it has grown faster than the output of consumer goods and the manufacture of the means of agricultural production. This is a long-term trend; the gap between purchasing power and the supply of commodities will continue to widen for some time to come. Since there are still quite a few small-scale producers and private merchants in our country, the situation in the market is very complex. We must therefore pay close attention to the many shortages of goods and the potential for instability in the market. A stable market is a prerequisite for economic development. This means that our major task in commerce is to guarantee smooth economic development by maintaining stability in the market even during this period when supply is unable to meet demand.

2. The basic solution to the shortage of commodities is to increase production. But because of limitations on the growth rate of production in general, and of agriculture in particular, we must adopt appropriate measures to guard against hoarding and speculation by private merchants. At the same time, we must prevent small producers from holding back their products and consumers from buying in panic.

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Directive to Party committees, drafted on behalf of the Central Committee of the Chinese Communist Party.

In the summer of 1953 state-run commercial enterprises began to order more goods from private manufacturers, either providing raw materials or not, and to increase the number of goods the sale of which is monopolized by the state. Last October and November we began practising planned purchase and supply of grain and oil-yielding crops and introducing more planning into our purchase of other major farm and sideline products. These measures basically put the state directly in control of the sources of manufactured goods and farm products. At the same time, for grain and oil-yielding crops, they helped to reduce the proportion of sales to purchases, thus maintaining stability in the market for those commodities.

When supply cannot keep up with demand, to maintain market stability it is indispensable to gain control of the source of goods through planned purchasing and to gain control of the volume of sales through planned supply. For some time to come, therefore, the state will gradually increase the number of different commodities subject to planned purchase and supply. Everyone in the Party should clearly understand this and be fully prepared for it. While improving the planned purchase of farm products, we should pay particular attention to increasing the variety of goods under planned supply and to improving our work in that area as well. We must understand that to maintain a stable market it is not enough to bring the main sources of manufactured goods and farm products under the direct control of the state. It is also essential to use planned supply to control the volume of sales of certain major goods of which there is a shortage and to try to distribute them rationally, in accordance with the requirements of national development and people's daily needs.

3. After the above measures were put into practice, relations in the market changed radically. State stores gradually squeezed out private wholesale merchants. By the end of 1953 the state sector occupied about 70 per cent of the wholesale market. Most private retail merchants can no longer rely on private wholesalers or on producers for goods, as in the past, but have to turn to state stores and cooperatives. These stores have to organize the procurement of goods not only for themselves but also for private retail merchants. As a result, the old free market has shrunk considerably, while the state commercial sector has increasingly taken responsibility for exercising unified management over the market as a whole and for guiding and supervising the private sector. This reorganization of market relations provides a fundamental prerequisite for the socialist transformation of private commerce by the state, reorienting the whole commercial structure to the needs of national development. This is very good.

However, it also inevitably causes strained relations between the public

and private sectors of commerce and makes things difficult for private merchants. At present there are more than a hundred thousand private wholesale merchants in large cities who cannot do business for lack of goods. Private merchants in smaller towns are seeing their volume of business decline, because the state is buying more of the major farm and sideline products. In the cities, the sales of private merchants have also fallen off because the state has monopolized the sale of grain and cooking oil. Furthermore, because state stores and cooperatives have begun to handle a wider variety of goods and to increase their retail sales more than they should have done, the private retail sector has been rapidly diminishing. All this has wreaked havoc among private retail merchants.

Since the general line for the transition period was publicized in the countryside, private merchants are no longer welcome there.<sup>162</sup> The cooperatives, however, are unable to deal in all local specialties, and as a consequence, trade in some minor farm and sideline products has come to a halt.

These are all examples of the current difficulties in private commerce. In China there are many people engaged in private commerce (seven or eight million shopkeepers and peddlers) and if we unthinkingly squeeze all of them out, leaving them no way to make a living and making no arrangement for their welfare, it will lead to an increase in the number of unemployed and cause unrest in society. This must be prevented or, where it has already happened, corrected.

In November 1952 the Central Committee decided that to solve the problems in private commerce brought on by the temporary market stagnation that followed the movements against the “three evils”<sup>112</sup> and the “five evils”,<sup>121</sup> it was necessary to readjust commerce. In its Directive on Readjustment of Commerce,<sup>133</sup> the Central Committee declared that to help private retailers stay in business, the differentials between wholesale and retail prices should be increased, that the number of state stores and cooperatives should be reduced and that they should no longer have a monopoly of so many goods. Similarly, it stated that to help private wholesalers, price differences between regions should be widened, and state stores and cooperatives should leave the wholesale trade in certain commodities to private dealers.

These measures were necessary and correct at the time. Under the current circumstances, however, when demand for many goods exceeds supply, if we wish to stabilize the market, we can no longer relinquish control over the major sources of manufactured and farm products, allowing private wholesalers to distribute them to retail merchants. With only a few exceptions—and these will be readjusted—the current wholesale-retail price differentials are appropriate. At the same time, because the variety of goods covered by

planned supply will be increasing for a long time to come, neither the number of state stores and cooperatives nor the variety of goods that they alone are authorized to sell can be reduced. Therefore, the measures adopted in 1952 to readjust commerce are no longer appropriate under current conditions and must be abandoned. The correct policy for the present is to take full advantage of the current favourable conditions presented by the change in market relations to carry out the socialist transformation of private commerce. We must make plans and proceed on a trade-by-trade basis, gradually converting the existing small private wholesale and retail enterprises into different forms of state-capitalist enterprises.

It should be noted that the socialist transformation of private commerce is an extremely difficult task that will meet with all kinds of resistance from the private merchants. Throughout the transformation process, the struggle between us and them, between restriction and opposition to restriction, will be complex and fierce. Although we have basically completed the task of squeezing out the private wholesalers, we still need to consolidate our success by doing some sound, practical work regarding arrangements for their personnel and disposition of their capital.

A more complicated and difficult task will be to transform the private retailers. This is not only because there are so many of them, but also because they belong to the petty bourgeoisie, and all their spontaneous leanings are towards capitalism. We cannot put them onto a state-capitalist basis without a struggle. Even after they have been transformed into state-capitalist retailers, there will inevitably be frequent struggles as we try to remould the management of their operations, establish a rational supply network, prevent them from making fake or adulterated goods or creating a black market, and strictly supervise them to ensure compliance with all the rules and regulations concerning selling on consignment and commission. As we gradually change most of the personnel in private retailing into the staff of state stores and cooperatives, we must give them systematic job training and help them remould their ideology.

4. In the light of the conditions mentioned above, we have made the following specific plans for the transformation of private commerce.

First, with regard to wholesalers. In general, those who are primarily retailers but also do some wholesaling, should concentrate on their retail operations. Those who are primarily or exclusively wholesalers, and who are able to continue operating as such, should be allowed to do so. Some of them—as many as needed—may act as wholesalers for the state stores. Those who can change to dealing in a different commodity should be helped to do so. In wholesale houses where none of these solutions is possible, the workers and

the managers serving the capitalists may be given some job training and employed by state stores. Private wholesale merchants whose personnel have already gone to work in state stores should be encouraged to employ their capital in useful undertakings under the guidance of state organs in charge of industry and commerce. Persons who hold responsible positions in capitalist enterprises, who want to work and are not too old to do so but cannot find jobs, should be trained and employed by state enterprises, as long as they have no political problems. To facilitate their remoulding, they may be assigned to any unit that does not deal with confidential matters; for example, they could work in enterprises handling commerce, grain supply or banking or in cooperative stores.

Second, with regard to retailers. Most of these—with the exception of those who must or may go into other lines of work—should convert their enterprises into cooperative or state-capitalist stores. State stores should allocate sources of supply, distribute goods in demand, adjust wholesale-retail price differentials and gradually unify state-sector and private-sector prices, in such a way as to ensure that private retailers get a certain volume of business and can make a living. The cooperatives and the state stores may make concessions regarding the proportion of certain goods they retail, but they must retain enough volume to keep the market stable. When distributing goods, state wholesale enterprises should make simultaneous arrangements with local peddlers and shopkeepers dealing in the same commodities, limiting the amount sold to peddlers to avoid squeezing out the shopkeepers. The peddlers will be harder to transform than the shopkeepers, and we should tackle them only after dealing with the shopkeepers. Private retailers who sell grain and cooking oil, which we are now supplying to them on a consignment or commission basis, have already been transformed into state-capitalist retailers.

In the second half of this year in all large and medium-sized cities, private retailers trading in one or two other commodities should be transformed into state-capitalist retailers, again by switching them to commission or consignment sales. This should be made clear to the private retailers so that they can go about their business without anxiety.

In transforming private retailers in towns and counties we should start with a single commodity, so as to gain experience before gradually broadening the experiment.

Since the variety of goods the state stores and cooperatives handle is not the same in the cities and the countryside, we must organize the work with private retailers in the two areas differently. The state stores will be responsible for the transformation of private retailers in the large and medium-sized

cities, while the cooperatives will be responsible for those in the towns. As for the transformation of private retailers in small county towns, it should generally be the responsibility of either the state stores or the cooperatives, or of both working together, as decided by the provincial Party committee according to local circumstances. When cooperatives run into problems in dealing with private retailers, the state stores should help them in any way possible.

Third, with regard to private importers and exporters. Basically, the socialist transformation of these people should be carried out in the same way as that of private wholesalers. At the same time, state organs engaging in foreign trade should try to introduce joint state-private management, to commission sales to private import and export agencies and to use other state-capitalist forms, guiding and supervising the private agencies in their trade with capitalist countries but allowing them to use their initiative to the full.

Fourth, in order to make exchange between the urban and rural areas smoother and to stimulate the market for agricultural products, local authorities should take the following measures, as suited to their specific conditions. 1) Set up an extensive state-run market for grain, in which private grain merchants have no part. 2) Hold fairs for agricultural products. 3) Organize street peddlers to buy and sell goods for the cooperatives on commission. 4) Eliminate any regulations imposed by town or township people's governments for the purpose of restricting trade between localities. 5) Where only small quantities of local specialties are produced, arrange for them to be purchased by both state and private wholesalers, or to be purchased exclusively by the cooperatives, which would then distribute a portion of them among the private retailers.

Fifth, to slow down the decline in the private retailers' volume of business, state stores and cooperatives should generally maintain sales at their present level until the peak season of 1954. However, in certain regions or for certain commodities the volume of business of the public sector may be allowed to increase or decrease. When it increases, arrangements should be made for the private merchants in that region or dealing in that commodity according to the above principle of division of responsibility between the state stores and cooperatives.

5. In order to adapt to the recent changes in the market and carry out the policies on transformation of private commerce, we must exercise unified control over the market throughout the country and coordinate our work. To this end, the following things should be done.

First, the Ministry of Commerce should be designated to exercise unified

leadership over all the state, cooperative and private stores of the country. It should take responsibility for planning the flow of essential commodities between various commercial departments and between different regions, controlling the ratio between state and private business and determining commodity prices.

Second, the variety of goods handled should be divided between the urban and rural markets according to the principle of the division of responsibility between state stores and cooperatives. That is, state stores should be responsible for the market in large and medium-sized cities and in manufacturing and mining areas, while cooperatives should be responsible for the market in the smaller towns and in the countryside. The market in most county towns and larger towns will be the responsibility of either state or cooperative stores, or of both working together, as decided by the provincial Party committee according to individual circumstances. The Ministry of Commerce and the All-China Federation of Supply and Marketing Cooperatives should get together to decide on a division of responsibility according to the principle outlined above and gradually put it into effect. Handicraft products should still be bought and sold by the cooperative stores in all areas. To strengthen control over the market, a financial commission should be set up in every county. This body should maintain close contacts with the provincial department in charge of state stores and together they should work out plans for the purchase and sale of commodities, control the proportion of business among state, cooperative and private stores and make uniform arrangements for the operations of private merchants.

Third, the urban market and the rural market should support each other. When non-staple food items are in short supply, consumption in small and medium-sized cities and towns should be reduced to ensure an adequate supply for large cities and manufacturing and mining areas. Manufactured products needed in both urban and rural areas should go first of all to the countryside, in order to encourage the peasants to sell their own products.

Fourth, with the exception of certain items such as grain and oil-yielding crops, whose export is limited, the quantity of most commodities to be distributed on the domestic market will be determined for a long time to come by the quantity needed for export. For certain commodities—meat, for example—domestic consumption should be limited to ensure adequate supplies for export. Certain others—fruit, tea and various local specialties—should be allocated first to the export market, with any surplus going to the domestic market. This is necessary to enable us to import the industrial equipment needed for development.

6. Party committees at all levels must exercise more effective leadership

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over commerce and see to it that state and cooperative stores are well-organized with competent cadres. They should explain to Party cadres why many goods are in short supply and why indiscriminately raising the purchase prices of farm products would enlarge the gap between purchasing power and commodity supply, aggravating the shortages. They should also explain that planned purchase and supply are necessary to maintain a stable market and ensure development. They should make it clear why large cities, manufacturing and mining areas and export must receive priority in the supply of certain commodities. They should also make it clear why we should not ignore the difficulties of private merchants and simply squeeze them out and why we must instead transform them into state-capitalist businessmen.

After receiving this directive, Party committees at all levels should discuss it and work out measures to carry it out.

## SOME IDEAS ABOUT THE SYSTEM OF PLANNED PURCHASE AND SUPPLY

*September 23, 1954*

I fully agree with the Report on the Work of the Government delivered by Premier Zhou Enlai.

Now I should like to talk about the system of planned purchase and supply of grain and other essential commodities, because that is of great concern to all of us.

Since 1953, the supply of certain consumer goods in China has fallen short of the demand. In the first half of 1953, in areas where the wheat crop had been damaged by frost there was a shortage of grain. In the second half of the year, in many localities cooking oil and meat were in short supply, so that customers in towns and cities often had to queue to buy them.

To cope with such situations, in December 1953 the Central People's Government introduced a system of planned purchase and supply—in other words, a state monopoly on buying and selling—of grain. Later, the new system was applied to vegetable oil. Then a few days ago, on September 15, the government instituted the planned purchase of cotton and planned purchase and supply of cotton cloth. There is no doubt that the system is very important, because it has a direct bearing not only on the vital problem of food and clothing but also on many aspects of the urban and rural economies. In China's present situation it is the only way to meet the ever-increasing needs of the people, to prevent speculation, to keep commodity prices stable and to help implement the First Five-Year Plan for Development of the National Economy.<sup>151</sup>

Why did the supply of grain, cooking oil, meat and cotton cloth fall short of the demand? Did the output of these products drop? No. On the contrary, it has been increasing since liberation. Moreover, with the excep-

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Speech delivered at the First Session of the First National People's Congress and published in *People's Daily* on September 24, 1954. At this session, Comrade Chen Yun was appointed as Vice-Premier of the State Council.

tion of oil-yielding crops, the annual output of these goods far exceeds the highest levels attained before the War of Resistance Against Japan. During the five years before 1937, when the war began, the average annual output of grain was 140 million tons. In 1936 the grain output was 150 million tons, but in 1953 it came to 165 million. In the peak prewar year of 1936, the output of cotton was a little over 800,000 tons, but in 1953 it was 1,175,000 tons. In 1933, the output of cotton yarn reached a record 2.44 million bales, but in 1953 it was 4.09 million. The number of pigs raised throughout the country rose from 63 million in 1936 to 93 million in 1953. Only the output of oil-yielding crops has failed to reach the highest prewar level, and it too has increased since liberation. In 1952 the output of such crops was higher than in each of the two preceding years, and from 1950 to 1952 there was a sufficient supply of cooking oil. It was only in 1953 that, despite the increase in the output of oil-yielding crops in 1952, oil was in short supply. These facts show that the shortages were not due to a decrease in output.

Did the shortage result from our exporting too much of these commodities? Has the export volume exceeded that of prewar years? True, over the past five years we have been exporting a certain amount of grain, vegetable oil, meat and other farm products, but we think this is something that has to be done. Having been ruthlessly exploited and oppressed by imperialists for over a century, China has a backward economy. Now that our people have state power in their own hands, their first priority is to overcome their economic backwardness. If we want to turn China, in not too many years, into a highly industrialized country, we have to import large quantities of machinery and equipment to build the foundations of industry. Thus, we have to export goods in exchange, and since China is an agricultural country, its major exports are necessarily farm products. Unless we can reduce domestic consumption of these products and export them, we shall not be able to import the machinery and equipment we need for industrial development. The people throughout the country should therefore cut back consumption wherever possible so that goods can be exported. To meet the needs of the people, the state allows only a limited amount of grain, cooking oil and meat to be exported, but as for other farm products, we should export as much as possible. Domestic demand cannot be satisfied until after the export quotas have been fulfilled.

When people are required to save goods, they will not be happy about it. Nevertheless, we have to choose between two alternatives: either we temporarily reduce consumption of as many goods as possible, so as to complete the country's industrialization, lay foundations for the further development of agriculture and light industry, and make it possible to rapidly

increase the supply of consumer goods in future; or we consume all our goods at home. If we choose the second alternative, we shall not be able to build up our industry, and the economy will remain backward for a long time to come. Naturally, everyone in the country should choose the first. We think that now and even for the next ten or twelve years we shall have no choice but to cut down on domestic consumption and give priority to exports. We shall continue to do that until we have built the foundations of industry and are able to reduce our imports of industrial equipment.

The amount of grain and oil we export now is only slightly more, and in some cases even less, than in prewar years. During the four years from 1950 to 1953, the average annual amount of grain exported was 1.55 million tons. After the September 18th Incident of 1931,<sup>128</sup> there were no reliable data on grain exports from northeast China, so we do not know the total annual amount exported in the prewar period. But according to customs statistics, during the four years from 1927 to 1930 China imported rice and wheat and exported soybeans and coarse grain [corn, sorghum, millet etc.]. The average net export of grain was 1.15 million tons a year. After liberation, the average annual export was only 400,000 tons more than during those years—not a large figure when compared with China's total grain output. During those four years, the average amount of oil exported annually was 246,000 tons, but during the four years since liberation, it was only 236,000 tons—10,000 less. Although pork exports are somewhat greater now than in the prewar period, those exports represent only 6 per cent of the additional amount of pork produced since liberation in 1949, or a little more than 2 per cent of the country's total. Since liberation approximately the same amount of grain, oil and meat has been exported each year, and from 1950 to 1952 supply and demand were balanced. Supply did not fall short of demand until 1953. Thus, it is clear that exports were not the cause of the shortage.

The main reason for the shortage of consumer goods is that the people's purchasing power has been increasing rapidly than production. Although the output of consumer goods has risen, purchasing power has grown faster. The new purchasing power is particularly visible in the countryside. The peasants have shared out the land owned by the landlords, and there have been good harvests for several years. In addition, the state now purchases farm products at prices much higher than in the early days of liberation. As a result, living standards in the rural areas have risen. The peasants now have sufficient food and consume more than before. Those who, to pay rent or debts, formerly had to sell grain which they badly needed themselves now feel no compulsion to sell surplus grain. Yet in the cities, industrial and mining areas as well as

in places where cash crops are grown, the demand for grain is rapidly increasing. That is the basic reason why there was a shortage last year.

In the cities, too, it is obvious that the people's purchasing power has increased. Over the past few years prices have remained stable, while wages have increased greatly compared to what they were in the early years of liberation. Most important of all, more and more people have been employed since we started large-scale economic and cultural development in 1953. Consequently, both the total volume of wages in society and the income of city dwellers have been rising sharply. It is because the income of people both in the cities and in the countryside have increased that there is a shortage of grain, oil, meat and cotton cloth, even though the output of these goods has also increased. So we think it is wrong for some people to complain that in the years before the War of Resistance Against Japan, under the Kuomintang regime, these goods were not rationed, but now, under our system of planned purchase and supply, they are. They say the past was better than the present. On the contrary, more of these goods are being produced than in the prewar years, but demand has been rising faster than supply. The reason there was no rationing under the Kuomintang, even though output was lower than it is now, was that the warlords, high officials, landlords and capitalists were the only people who could afford to buy all they wanted, while the living standards of hundreds of millions of labouring people were much lower than they are today. At that time only a few people really had enough food and clothing, but now that hundreds of millions of people have been emancipated, all of them have enough. If every person in the country wanted cloth for just one new dress or jacket a year, that would require something like 30 to 40 million bolts of cloth. And if every person ate just half a kilogram more of pork a year, we would need 6 to 7 million more pigs. So if the hundreds of millions of people consume more, there are bound to be shortages even if output is increasing. How on earth can people say that the past was better than the present? On the contrary, the shortages indicate that most of the people are leading a better life now than they were before.

The solution is to increase production, but we cannot do that immediately. However, under present circumstances, there are two ways of handling the problem: 1) to permit merchants to hoard commodities and speculate, which would simply result in panic buying and soaring prices, from which the speculators would benefit while the consumers suffered, and 2) to institute a system of planned purchase and supply, which will ensure that producers can sell their products for a reasonable price and that consumers can buy a certain amount at a normal price, thus benefiting both. Only the speculators will be upset by this method, because they will be deprived of the

chance to speculate. It is therefore quite right for us to use it.

Does the system of planned purchase by the state of surplus grain, cotton and oil-yielding crops benefit the peasants? We think it does. If, instead of introducing that system, we had allowed private merchants and rich peasants to dominate the market for farm products, as they did before liberation, they alone would have been in a position to hoard goods waiting for prices to rise. Most peasants would not have been able to profit from that kind of speculation; on the contrary, in a market controlled by private merchants and rich peasants, they would have been forced to sell low and buy high. Under a system of planned purchase, the peasants do not suffer such losses. When the state fixes purchase and sale prices, it pays due attention to the interests of both peasants and consumers. Moreover, last year the state paid out over two trillion yuan<sup>2</sup> for transportation and other costs involved in the purchase and sale of grain. Where on earth could one find grain merchants who would provide such subsidies? Of course, it is only a temporary measure for the state to cover these expenses, but it proves that the government is really considering the interests of both peasants and consumers. Also, more than a third of the total was sold to peasants who were short of grain. Over 100 million peasants have to depend to varying degrees on the state for grain, because some of them grow cash crops, others have too little land, and still others have suffered natural disasters. So the planned purchase of farm products benefits the peasants themselves.

Not everyone approves of the decision to ration flour, cotton cloth and cooking oil. Of course, rationing does restrict consumption, but the present system does not apply to all commodities. In the North, for instance, wheat flour is rationed and the per-person allowance is insufficient, but other grains can be freely purchased.<sup>163</sup> Cotton cloth is also rationed there, but the ration is enough to make sure that everybody has clothing.<sup>164</sup> People who earn higher incomes can buy silk, woollen and linen fabrics, which are not rationed. The supply of cooking oil is limited, and in certain cities and the countryside the ration is rather low, but people can buy as much meat and fat as they wish.<sup>165</sup> So we restrict consumption of only certain commodities. Of course, consumers prefer to buy goods freely, but if merchants were permitted to hoard commodities and speculate, causing panic buying and soaring prices, not only would most people be distressed but many would be unable to afford adequate food and clothing.

Will the system of planned purchase and supply be abandoned in future? We don't think so. On the one hand, it enables the state to control the supply of commodities, which is necessary to ensure planned economic development; on the other, it sets the peasants on the road to abundance and

socialism through the organization of cooperatives, not the development of rural capitalism. If we abolished the system of planned purchase, that would again leave the way open for private merchants and rich peasants to dominate the market for farm products and would lead to the development of capitalism in the countryside. Planned purchase is a socialist measure that benefits the peasants and prevents them from being exploited.

The system of planned supply, on the other hand, is only a temporary measure. As soon as we increase industrial and agricultural production to the point where the output of consumer goods fully meets market demand, it will be abolished. However, it will be some time before we are able to stop the planned supply of grain, cooking oil and cotton cloth, because those goods are, directly or indirectly, farm products, and their output will increase relatively slowly. On the contrary, in the next few years we shall introduce rationing of more commodities to cope with the problem of supply and demand. We must recognize that rationing does not mean reducing supplies but curbing increased consumption. In other words, we cannot afford to give free rein to consumption. We must recognize that slowing the rise in living standards is not a step backward but a step forward. It is a normal part of the country's economic development.

It has been more than six months since we instituted the system of planned purchase and supply of grain and oil-yielding crops. Facts have shown that the people throughout the country have supported the government. In response to our call on the peasants to sell grain to the state, they have overfulfilled their quotas. The planned supply of grain in town and country has also worked smoothly. The people have cooperated with the government, and the state has supplied more grain to both the urban and rural populations than was originally planned. Commodity prices have remained stable throughout the country.

But this does not mean that the government has made no mistakes in its work. On the contrary, it has made many. For example, the quotas set for planned purchase of grain turned out to be too low for some peasant households and too high for others. The distribution of grain to the peasants was not as fair as it might have been. In many towns we have not established state-supervised grain markets from which private merchants are excluded. The government does not have a sufficient stock of cooking oil, so there is only a limited supply in the countryside. In many places oil mills have not yet resumed production. In our future work we have to correct all these mistakes.

An urgent problem is that in certain rural areas there is a limited supply of cooking oil. People are asking how we can solve this problem. Should we

increase the supply of oil in the countryside by reducing the ration in the cities? The oil problem is not the same for all peasants. Some of them have a small surplus, some have just about enough, and others have too little or none at all. In the past the peasants used to even out the distribution themselves, but now that there is a general shortage, they are unable to do so. This has further aggravated the problem. The oil ration in the cities is very small. In Beijing, for instance, each resident can buy only 0.3 kg. of oil a month, and in many other cities and towns the ration is even less. The shortage in the countryside, therefore, cannot be made up by reducing supplies to the cities. We can cut back the per-person ration by only a very small amount a month. If we reduced it by, say, 0.03 kg. per month, that would give each peasant only an additional 0.006 kg.

Since the source of cooking oil lies in the countryside, the only way of dealing with the shortage there is to increase the output of oil-yielding crops. Accordingly, the government is urging peasants who have been growing large quantities of such crops to continue doing so and to sell more to the state, in order to meet its need and the need of the urban population. It is also urging those who have not done so before to start growing these crops at the edges of their fields or on wasteland, so that by next harvest every household will produce enough oil for its own use and in future may even be able to sell some to the state. We believe that if we take appropriate measures, the peasants throughout the country will cooperate with the government, and the shortage of cooking oil will gradually be eased.

As we institute the system of planned purchase and supply of grain and oil-yielding crops, state stores have monopolized a wider range of products and begun ordering more of them from private manufacturers nationwide to ensure supplies and to keep commodity prices stable. These measures are necessary, and they are also in the interest of the people.

But this has brought about a major change in commercial relations. When the state monopolizes a product, private wholesalers find it difficult to replenish their stock and may even be driven out of business. And under the system of planned supply of grain, cooking oil and cotton cloth, private retailers selling those goods become agents for the state stores. The current state policy towards these private merchants is as follows. Wholesalers who can continue operating should be allowed to do so. Some of them can act as wholesalers for the state stores. Those who can change their line of trade should also be allowed to do so. Employees (including persons who hold responsible positions in capitalist enterprises) who have lost their jobs and cannot find new ones should, if they wish, be trained and employed by state companies and cooperatives. They should then receive the same wages and

benefits as other staff working there. Private retailers who are willing to observe the regulations governing agents for state stores and cooperatives may be given goods to sell on commission and may make a reasonable profit. Of course, those who do not observe the regulations or are found guilty of larceny or embezzlement will be liable to punishment by the state.

That is all I have to say about planned purchase and supply. Any deputy who wishes to take issue with my remarks is welcome to do so.

## **SOLVING PRODUCTION PROBLEMS IN PRIVATE INDUSTRY**

*December 31, 1954*

At the moment, the most pressing problem in private manufacturing is that in certain industries, while there is plenty of machinery and labour, there is a shortage of raw materials, and factories are not operating at full capacity. These industries include machine-building, pharmaceuticals and medical instruments, knitwear, ready-made clothing, foodstuffs (flour, cooking oil and canned food), leather, stationery, printing and, especially in northeast China, lumbering. In these industries there are contradictions between state and private enterprises, between the cities of Shanghai and Tianjin and other areas, and between advanced enterprises and backward ones. Both state and private enterprises throughout the country are experiencing difficulty, but private ones are having the hardest time, especially in Shanghai and Tianjin.

Producers of flour and cooking oil have had problems ever since liberation. Yet it is precisely because little, if any, new equipment has been supplied to them that their problems are not very serious. On the other hand, because productive capacity of electrical machinery, pharmaceuticals, knitwear and stationery has expanded, manufacturers of these products are having trouble obtaining raw materials. In these industries both state and private enterprises have overexpanded.

There are three reasons for this overexpansion. First, during the War to Resist U.S. Aggression and Aid Korea,<sup>88</sup> the state placed many orders with private manufacturers for finished goods. Second, the state has placed even more orders because more capital construction projects have been launched. Third, state stores have placed many orders without considering the consequences. In the first half of 1953, these stores sold all the merchandise they had in stock. As a result, in the second half of the year they began ordering large quantities of goods of every kind from all over the country, no matter

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Speech at a forum held by the State Council on problems in private industry and commerce.

what variety or specifications. China is a vast country, and if we are not careful, goods will be overproduced. For example, we are going to award some medals and decorations. If every enterprise starts producing them, problems will arise, since medals are not awarded every day.

Some industries that used to be in trouble are now in the clear, while others that were formerly thriving are now beset with problems. All this has taught us a lesson. In future when we see certain industries expanding too rapidly, instead of watching with satisfaction, we should tighten control over them. Otherwise, there will be overproduction. Development in itself is not necessarily a good thing; without planning and proper management, it is undesirable. This is true not only in private industry but also in state-owned industry. Although state-owned industry is socialist, if it is not planned, it will grow too rapidly. And state-owned industry is related to other sectors of the economy. We also have cooperatives, joint state-private enterprises and private industry. If we draw up a plan only for the development of state-owned industry, neglecting the other sectors, the plan will not work. The economy has many sectors, such as industry, agriculture and transportation, not to mention commerce, finance and banking. We have to consider those as well. If we only pay attention to industry, we shall run into trouble.

For a long time there has been no single organ responsible for managing private industry. As it is, the ministries and commissions under the central government already have their hands full managing just state-owned industry. Although in the localities there are the bureaus for industry and commerce, those are simply administrative organs in charge of the launching and closing of private enterprises. They are not responsible for purchasing the products of the enterprises or for supplying them with raw materials. As a result, they are not in a position to manage private industrial production. Now that we have taken control of supplying materials to private enterprises and purchasing their products, we have to set up a special organ to handle this work. Last September, therefore, we established the Ministry of Local Industry to manage private industry.<sup>166</sup> Now there are favourable conditions for us to begin planning private production. We have controlled the supply of raw materials and the purchase of finished products. Last winter we instituted a system of state purchase of grain, and we monopolized the major farm products. This spring we took control of the purchase of manufactured goods.

What principles should we apply in readjusting private industrial production? In accordance with the Party's general line for the transition period,<sup>162</sup> we should develop socialist and semi-socialist industry in a planned way and at the same time utilize, restrict and transform capitalist industry.

On condition that the socialist sector of the economy grows steadily and leads the others, we should give overall consideration to the state-owned, cooperative, joint state-private and private sectors and ensure that each plays its own role. We should try to prevent unplanned production and spontaneous expansion in the capitalist sector. Production in all four sectors of industry should be incorporated into the state plan.

Of course, we shall never allow the capitalists to reject the leadership of the state sector of the economy and to engage in the “five evils.”<sup>121</sup> But we must remember that the five sectors of the economy<sup>77</sup> coexist in our country and that we must therefore make overall plans for all of them. If we consider only the state sector to the neglect of the others, there will be problems. In 1950, to stabilize our finances and the economy we concentrated on withdrawing currency from circulation by collecting taxes and issuing government bonds. That damaged the capitalist sector of the economy. Consequently we had to readjust industry and commerce.<sup>73</sup> At the time we were satisfied with the action we had taken, but the capitalists were not. Managing only state-owned industry is relatively simple, while managing both state-owned and private industry will give us a great deal of trouble. But we must not be afraid of that trouble. If we don’t start managing private industry now, there will be a lot more trouble in future. Which is better, to solve the problem now or to postpone dealing with it? Of course we should solve it now. As we all know, we must treat the various sectors of the economy differently. But in restricting and transforming private industry and commerce, we have often gone too far. So we have to make some readjustments. Why should we treat private and state-owned industry in almost the same way? Because sooner or later, the entire private sector will be nationalized, so we cannot abandon it. Besides, since the workers in private enterprises are all Chinese, just like the ones in state enterprises, we should not treat them differently.

Now I should like to discuss some ways of solving problems in industrial production.

1. *Contradictions between state and private enterprises.* If possible, state enterprises should let private enterprises have some of their raw materials and orders for products. Because of the failure of the cotton crop, not only private textile mills but also state ones should reduce the number of shifts and cut back on hours. Private factories in the machine-building industry can produce only a few types of machines, and those are not readily salable. To help them maintain production, state factories should allocate to them certain quotas for other, more marketable products. All this does not mean that we give priority to private production. On the contrary, production in state enterprises is still of first importance. If state enterprises share their

production quotas with private ones, they will reduce the amount of profit to be turned over to the state. But if they do not, the government will have to provide relief funds to workers who lose their jobs with private enterprises. So either way the government will suffer a financial loss. We think it would be better for the state to collect a smaller amount of profit, because more often than not, even if we provide relief to unemployed workers, they still curse us. Of course, in this way the proportion of socialist industry will increase slowly for a couple of years, but we should be far-sighted. If we can help private enterprises maintain production to make sure the proportion of private industry does not drop too rapidly, the workers in those enterprises will be content, and they will urge the capitalists to establish joint state-private enterprises with us. That will make it easier for us to incorporate private industry gradually and successfully into the socialist sector.

2. *Contradictions between advanced and backward enterprises.* Certain local authorities only consider their own interests. Although their local products are inferior to those made in Shanghai and Tianjin, they insist that local state stores sell them. While free competition is bad and unnecessary, the attitude of these authorities is wrong, because it impedes progress and encourages backwardness. The correct thing to do is to reward advanced enterprises, assist backward ones and put a stop to the production of harmful commodities (such as ineffective medicines).

3. *Contradictions between the cities of Shanghai and Tianjin and other areas.* The way to solve this problem is to maintain production in Shanghai and Tianjin and help other areas. Because of unplanned industrial development in quite a number of areas, private factories in Shanghai and Tianjin are facing heavy competition. But industrial output in those two cities cannot be allowed to decline. Why? Because they are old industrial bases where most of the country's everyday necessities are produced. According to the First Five-Year Plan,<sup>151</sup> we are going to build new factories in the interior of the country to supply goods to the market there. In Shanghai and Tianjin, however, there are to be no new factories, so if the existing ones close down, production will come to a halt. These two cities are not only major producers of daily necessities but also important centres for the exchange of goods between town and country and between China and foreign countries, and many wholesalers and importers and exporters do business there. But because of the changes in the flow of goods, the number of these businessmen has decreased; and service trades there are finding it hard to survive. It is in the interest of the whole nation to maintain production in Shanghai and Tianjin.

To deal with the situation, we should do the following things.

1) We should gradually carry out the socialist transformation of the

various industries by supplying private enterprises with raw materials, assigning them production quotas, assessing the capacity of their equipment and drawing up plans for production. To this end, we must investigate the situation in capitalist industry and then examine ways to transform it. Of course, this is not something that can be accomplished overnight; it will take several years. But if we do not begin now to gain a clear understanding of the state of capitalist industry, problems will arise later as we try to transform it.

2) We must make use of existing industrial facilities, control the building of new ones and expansion of old ones and curtail investment in capital construction. Many factories in light industry are not being put to good use, while new ones are still being built and existing ones expanded. In certain areas there may be a shortage of these factories, but in the country as a whole there are more than enough. Since we already have too many, it would be a waste of the country's financial resources to build more. For example, the Ministry of the Textile Industry plans to put 2.75 million more spindles into operation during the period of the First Five-Year Plan. Judging from the current situation, however, because of the shortage of raw materials, existing mills are not working at full capacity. The Ministry should therefore consider reducing its planned quotas for capital construction. Also, according to the First Five-Year Plan, 14 trillion yuan<sup>2</sup> is to be invested in local industry (¥7 trillion has already been spent). And now we are being asked to invest an additional ¥10 trillion. If we allocate all this money, I am afraid the dam will burst. The central government should cut back its investment in local industry. We should also control the amount of profits that local enterprises invest in new plant and the amount of funds that local governments allocate for that purpose. If we allocate more funds for investment now, it will cause trouble, so it is better to wait two years. We should also prevent private industry from expanding. But then, what is to become of private wholesalers? That is hard to tell. We used to say that they could shift to manufacturing, but now there are too many manufacturers, so we cannot simply say they should go into manufacturing without specifying which branch. In the cooperative sector too we should control construction of new industrial enterprises and expansion of existing ones.

3) We should encourage private industrial enterprises to upgrade their technology, and if backward ones fail to do so, they should be obliged to close down. This should be a general principle, with exceptions in individual cases. For example, in certain areas where there are many private textile workers who weave cloth by hand, if we force them out of business, they will lose all means of subsistence. As Hebei and some other provinces suffered

floods this year, the government had to supply the peasants there with cotton to help them weave cloth by hand so they could survive. Otherwise, the government would have had to provide them with relief.

4) When necessary and possible, we should try to plan private industrial production. We should take both temporary and long-term measures. At present there are 134,000 private factories, of which 17,000 are large ones. If they are not organized, it will be hard to manage them. These enterprises may be gradually combined, by merging small enterprises with large ones, for example. The ministries in charge of industry should place on their agenda the question of how we can make good use of capitalist industry. Moreover, when we are fulfilling the First Five-Year Plan, we should consider the full production potential of capitalist industry and incorporate it into the plan. It will be impossible to retain all private industrial enterprises; some of them will have to shut down.

5) We should prevent state stores from ordering goods from private enterprises at will. In future, all orders should be approved by departments in charge of their management or by provincial or municipal departments in charge of such orders.

6) We must control expansion of the handicraft producers' cooperatives. Certainly, these cooperatives should expand, but we must prevent them from producing more goods than there is a demand for. At the same time we should make sure that they have an adequate supply of raw materials. We should also keep new handicraft centres from squeezing old ones out of business and organized workers from squeezing out unorganized ones. Such things have taken place in both industry and commerce. For example, in commerce, the private retailers who buy goods wholesale from state stores have been pushing those who do not out of business.<sup>167</sup> It is better to proceed slowly to organize the handicraftsmen into cooperatives; otherwise, there will be problems.

7) We must export a greater variety of products of private industry and improve their quality.

8) The state should exercise more effective leadership over private industry. The Ministry of Local Industry cannot do this alone. The private sector covers a wide range, including both light and heavy industry, and it comprises many small enterprises. The ministries and commissions cannot manage all of these enterprises; in fact, some of them have all they can do to administer just the state enterprises. There are, however, some ministries and commissions that can manage certain elements of private industry. For example, the Ministry of the Fuel Industry can administer privately owned coalpits and companies that manufacture electric lights.<sup>168</sup> In addition to the

Ministry of Local Industry, we should establish some new leading organs that will administer all enterprises, both public and private, in the same branch of industry. At the moment this method cannot be applied to all enterprises. There must be a transition period. We shall first place joint state-private enterprises under the administration of different ministries or commissions according to their trades, and we shall establish a new ministry to take care of the many small private factories. The central authorities are now considering establishing a Third Ministry of the Machine-building Industry with a small but capable staff.<sup>169</sup> Local private enterprises should also be administered according to the branch of industry they belong to, under the “one whip” method.<sup>170</sup> The task for all central and local organs is not to manage individual factories but to find ways to balance state and private industry, to control overall production and to transform private industry.

9) We must combat two tendencies: the tendency to consider only state industry to the neglect of private industry, and the opposite tendency to allow private industry to rely solely on the state for help.

Our present difficulties can be overcome after a period of readjustment. Industry as a whole is expanding, but the problem is that some branches have developed too rapidly. As long as we keep a tight rein on expansion, the situation will improve. In the past, manufacturers had difficulties producing matches and cigarettes, but we helped them to overcome those difficulties. I believe that the current problems arising in certain industries can likewise be solved. Moreover, two-thirds of the investments called for in the First Five-Year Plan will be made in the last three years of the period, especially in the last two. By that time the production capacity of the machine-building industry will be too limited. Taking the country as a whole, we can see that the industrial facilities will be far from adequate. Of course, we must still take care to prevent overexpansion.

# MAINTAINING AND IMPROVING THE SYSTEM OF STATE MONOPOLY OF THE PURCHASE AND MARKETING OF GRAIN

*July 21, 1955*

In September 1954, although we did not realize it at the time, sales of grain in both urban and rural areas across the country began rising abnormally. Again in March and April of this year, many peasants in certain areas of provinces formerly under the greater administrative regions of east, south-central and north China began to demand grain. As a result, the state sold much more grain every month than it had planned to. Even so, in some areas the more grain we sold, the more people complained about a shortage. In those areas sales of grain in the cities and towns also increased steadily. In many places city dwellers began to queue to buy machine-made noodles and other grain products.

To rectify this abnormal situation as quickly as possible, on April 28, 1955, the State Council and the Central Committee of the CPC issued a Directive on Tightening State Monopoly of the Marketing of Grain. The provincial and municipal authorities immediately sent hundreds of thousands of cadres to the countryside and the cities to straighten out the grain problem. These cadres explained to the people the purpose of the state monopoly of the purchase and marketing of grain and called on them to help the government make it a success. They held meetings to discuss the amount to be provided to the peasants who were asking for more, making sure that each household would receive what it needed and no more, and that, whenever possible, deliveries would be postponed.

Thanks to this effort, sales soon returned to normal, and the number of households that claimed to be short of grain dropped significantly. The total volume of grain sales, which had been 46.5 million tons in

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Excerpt from a speech delivered at the Second Session of the First National People's Congress. It was first published in *People's Daily* on July 22, 1955.

March and 48 million tons in April, dropped to 42 million in May and 32 million in June. May has always been the month in which the most grain is sold, but this year less was sold in May than in March or April. Clearly, most of the people who said they needed grain actually had enough. Having analysed the situation in the production, purchasing and marketing of grain, we believe that the shortages in some areas this spring were caused in part by mistakes we made when we monopolized the purchase of grain last year. That is, we bought millions of tons more grain than we should have. A more significant factor, however, was that the peasants were not accustomed to the new system. For a great many years, as small individual producers, they had been used to disposing of any surplus grain as they saw fit after paying their rents and taxes. After they sold their grain to the state under the new system, some of them who were used to having a little property on hand wanted to buy it back, and some even tried to buy back more than they had sold.

It might appear that in cities and towns where grain was in short supply last March and April, all those peasants who lined up to buy noodles and other grain products did not have enough to eat. However, there is considerable evidence to show that the people in the queues fell into different categories. A few of them were indeed short of grain, but some peasants who had a surplus joined the queues merely to pretend they did not have enough, for fear they would be called upon to sell more. Most of the peasants had enough grain but wanted to set more aside as a reserve, and that is why they lined up to buy noodles and so on. Others, who had been determined to be short of grain and who had been told to get their supplies beginning at a fixed date, wanted to buy some food before then. It should also be pointed out that in many places temporary grain shortages were caused by landlords, rich peasants and counter-revolutionaries. Taking advantage of our mistakes and of the fears of peasants who had a little property, they spread rumours of shortages and incited them to buy and hoard grain. But because the peasants supported the government, and because most of those who claimed they were short of grain actually were not, after we explained the new system to them and improved our work, the volume of sales returned to normal, and fewer people complained of shortages. Thus the peasants were no longer worried.

Some people have proposed that we abandon the state monopoly of the purchase and marketing of grain and reduce the amount of grain the government buys, supplying only city dwellers and allowing those peasants who have a surplus to supply those who have a shortage.

We think that would be a mistake. As we all know, in the first three

years after liberation in 1949 the state did not monopolize the purchase and marketing of grain. The state monopoly was introduced in December 1953 to help balance supply and demand. At that time, in the cities, manufacturing and mining areas and places where cash crops were grown, there was an increasing demand for grain, but the government was unable to buy the amount needed to meet it. We started large-scale industrial development on the basis of a small-scale peasant economy—a scattered, partially self-sufficient economy in which productivity was low and only a small amount of goods reached the market. After the agrarian reform<sup>64</sup> grain yields increased, but the peasants also consumed more. Besides, they were not eager to sell their surplus. As a result, grain sales fell. Under these circumstances, grain dealers and even dealers in other goods began to hoard grain, and the rich peasants held on to their surplus until prices were high enough. Therefore, to ensure adequate grain supplies and to prevent private merchants and rich peasants from dominating the market, the government had to institute a state monopoly. We believe that this policy is good not only for consumers but also for all peasants who sell grain, because the state purchase prices are fair. So the policy benefits the country and the people, and we shall need to continue it in future.

We believe that it would be harmful for the government to supply grain only to city dwellers and allow the peasants themselves to even out the distribution in the countryside. It is true that in some parts of Heilongjiang and Inner Mongolia this policy is generally applied. That is possible because in those places each peasant has an average of 12 *mu* of land [1 *mu* = 1/15 hectare], and every household has surplus grain. Furthermore, there are not many peasants growing cash crops who need to be supplied with grain. But things are different in most other rural areas. There are more than one hundred million peasants across the country who need to buy grain every year. Thirty to 40 million of them grow cash crops, about 40 million are affected to varying degrees by natural disasters, and 50 million for other reasons are unable to grow enough for their own needs. Also, there are about 12 million fishermen, herdsmen, salt producers, lumbermen and boatmen who need to be supplied with grain. Furthermore, many of the peasants who have enough grain for their own consumption still need to buy or sell a certain amount. For example, they may sell wheat to buy coarse grain, or sell part of their grain to obtain money for one purpose or another and then buy some when they can afford to. Although we have not counted these peasants, and although their number varies from place to place, we estimate that they amount to at least 20 per cent of the total rural population, or 100 million people.

This means there are more than 200 million people in the countryside who do not have enough grain or who need to sell and buy it. If the government does not supply those people with grain and help them trade it but allows private merchants and rich peasants to dominate the market instead, then capitalism, which keeps vast numbers of peasants in poverty, will inevitably run rampant in the countryside, and the state plan for devoting fixed percentages of land to different crops will come to nothing. This will be followed by rises in the price of grain, first in towns and small cities, then in medium-sized and large cities, with the result that commodity prices across the country will be destabilized. It is very clear why we should not adopt this policy.

If we want to bring about a fundamental improvement in the grain situation, we have to increase output. To do this we have to handle both production and supply well. Only by expanding production can we ensure adequate supplies, and solving the problem of supply will, in turn, help promote production. We must recognize this relationship. The key to expanding agriculture and increasing grain output is to organize producers' cooperatives. In other words, we should do all we can to establish agricultural cooperatives and to bring the 110 million peasant households into them. If we can do that, grain output will increase considerably, and it will be easy for the state to buy and sell grain through the cooperatives. Then the cooperatives will be able to provide enough grain for all, and the peasants will feel they have large reserves to rely on.

Nevertheless, we must recognize that it would be impossible for us to organize all the peasants throughout the country into cooperatives at once. At present, there are only 650,000 cooperatives, involving about 17 million peasant households. According to the First Five-Year Plan,<sup>151</sup> by 1957 only about one-third of all peasant households will have joined cooperatives. With so many private peasant households, it is difficult for us to carry out the policy of state purchase and marketing of grain. We have no experience in carrying out the new system, and it is hard to estimate the grain output of all these households accurately so as to find out whether they have a surplus or a shortage. Nevertheless, it has to be done. The government has to retain its monopoly of grain. At the same time we should gradually improve our work in this area and, to consolidate the alliance of workers and peasants, try to win the support of the peasants.

Fixing quotas for the production, purchase and marketing of grain will help us to secure their cooperation.<sup>171</sup>

Specifically, these three quotas should be fixed in the following manner. First, the amount of grain to be collected and purchased by the state in

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the July 1955-June 1956 grain year<sup>137</sup> should be set at 43.25 million tons. This amount will remain the same for the two following years.

Second, local authorities should be required to estimate grain output as accurately as possible, to make sure that production quotas are not too high. They should also determine the amount of grain to be retained, in accordance with the consumption level in their localities, to ensure that there is enough for the peasants' own use. They should not buy all the surplus but leave a certain amount to the peasants, and they should make sure not to buy grain in excess of the quota.

Third, we should distinguish between rural households that have a surplus of grain and those that have just enough or not enough. We should allow households in the second category to buy back the same amount of grain as they sold to the government. This grain will not be counted as part of the total amount bought by the state. This year throughout Hubei Province, and in certain counties of other provinces, we are introducing on a trial basis the practice of allowing households that have only just enough, or not enough, grain to pay their agricultural taxes in cash instead of in grain. The purpose of this is to make a clear distinction between the way we treat households that have a surplus and the way we treat those that have barely enough or are truly in need, and to get the exact number of households in each village that do not have enough grain. As production expands, the number of such households will gradually decrease, and those that are having just enough grain will have a surplus. We should be able to observe these changes in all villages over a period of time.

Fourth, we should improve the system for issuing ration books for grain and coupons for other foods and put an end to bad practices in this regard. We should also try to reduce waste by storing and transporting grain properly.

Fifth, we should tighten control over the sale of grain in the cities, to make sure that none is wasted and that only the set quota is sold. At the same time, we must make sure that city dwellers have enough.

The peasants support the "three-quota" system, because it enables them to plan their production and consumption. Some of them say that the three quotas free them from their quota of anxiety. Clearly, this system will encourage the peasants to produce grain, will help increase this year's output and will facilitate state purchase and marketing.

Over the last few years we have been working hard to supply the peasants with manufactured goods. If we succeed in this endeavour, it will make it easier for us to buy grain. We must take care to coordinate efforts to supply manufactured goods with the implementation of the "three-quota"

system mentioned above. The First Five-Year Plan stipulates that in carrying out the plan for national industrial development, we should give all possible consideration to the peasants' needs for the means of production and of subsistence.

In addition to implementing the "three-quota" system, the government must exercise more effective control over grain markets.

This spring when peasants in certain areas claimed that they were short of grain, some people wrongly declared that neither the system for collection and distribution of grain nor the agricultural producers' cooperatives had been successful. We rejected this view. It is true that we made certain mistakes in the collection and distribution of grain, in the organization of cooperatives and in other aspects of rural work, but in general we did a good job. Most of the deputies to this National People's Congress and to the provincial and municipal people's congresses have conducted on-the-spot investigations in the countryside and in the cities. As you have clearly seen, the situation in the rural areas is not so bad as some people have alleged.

We did make mistakes. For example, we didn't supply enough grain to households that needed it, and we didn't supply it quickly enough. Also, in certain areas the peasants were not allowed to retain enough animal feed, so that the number of pigs and draught animals declined. Again, in some places cooperatives were not well organized, because we didn't respect the principles of voluntary participation and mutual benefit. We have already corrected some of these mistakes and are working to correct the others. Now the peasants are eager to increase production, and they are buying fertilizer and collecting manure everywhere. Crops are growing well, and there has been a good wheat harvest in all provinces (except for Shandong and Shaanxi, where the output dropped a little this year because of the drought). Most autumn crops are growing well, too. And many peasants are asking us to organize agricultural producers' cooperatives. All this shows that in general the peasants are working to expand production and that only a handful of them are temporarily dissatisfied because of individual problems.

The people who wrongly criticized our work saw only our mistakes, which are secondary to our achievements. In other words, they couldn't see the forest for the trees. These people fell into different categories. Some of them were former landlords or rich peasants who, taking their old stand, were only interested in calling attention to our mistakes. In particular, certain representatives of the landlord class who nursed thoughts of revenge against the peasants and the people's government invented stories and spread rumours. Others were counter-revolutionaries who opposed the people and the people's government and who plotted to pursue their ends by taking

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advantage of all the shortcomings in our work.

But most of the people who criticized us were not like them. Some were Party members, some were democrats from other political parties, some were labourers, some petty-bourgeois intellectuals, and some prominent figures from other social strata. They all had good intentions and hoped that the government would handle its affairs well. The problem was that they simply listened to the peasants' complaints without analysing the actual situation. In other words, they didn't compare our mistakes with our achievements or examine them to see if they were really serious. We should listen to the suggestions of the people of good will and accept their criticisms when they are justified. We should also point out when their criticisms are unjustified and explain the facts to them so we can work together to improve our performance. We must refute the criticisms of the landlords and rich peasants. As for the counter-revolutionaries, we must call on the people throughout the country to be on guard against them and to expose and foil their plots.

## **THE NEW SITUATION AND THE TASKS ARISING FROM THE SOCIALIST TRANSFORMATION OF CAPITALIST INDUSTRY AND COMMERCE**

*November 16, 1955*

Today I should like to discuss the socialist transformation of capitalist industry and commerce.

Over the past few years we have made enormous progress in this endeavour.

In industry, 93 per cent of the large private factories (those using machinery that employ more than 16 workers, and those using manual skills that employ more than 31) are accepting orders from the state. By the end of June 1955 more than 1,900 private factories had been converted into joint state-private enterprises, and they produced about 58 per cent of the gross output value of capitalist industry.

In commerce, socialist and state-capitalist sectors have increased considerably. In the 32 large and medium-sized cities, the volume of retail sales of state-owned and cooperative shops accounts for about 52 per cent of the total, that of joint state-capitalist shops acting as agents for the state about 22 per cent, and that of the privately owned shops only about 25 per cent. In other words, three-quarters of the business is conducted by socialist and semi-socialist shops, and only one-quarter by wholly private shops. In the rural towns, the volume of retail sales of state and cooperative shops comes to 61 per cent of the total, that of shops acting as agents for the state 10 per cent, that of peasant peddlers 11 per cent, and that of wholly private shops only 18 per cent, which is smaller than the proportion in the cities. The wholesale volume of state and cooperative shops accounts for 91 per cent of the total, and that of private merchants only 9 per cent.

A new situation has recently emerged in many places across the country

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Report delivered at a conference on the socialist transformation of capitalist industry and commerce held by the Central Committee of the Chinese Communist Party.

in which entire industries, involving dozens and even hundreds of factories, have begun joint state-private management. In Shanghai, enterprises belonging to eight different industries—cotton, wool, linen, flour, rice, paper, cigarettes and enamelware—have been converted to joint state-private ownership. In Beijing all the flour mills, factories producing machinery and electrical equipment and shops selling cotton cloth have also been converted. In addition, in Tianjin some shops selling grain for the state on commission have become state-owned ones.

Now we can say that, by using various methods of state capitalism, we have incorporated capitalist industry into the state plan, thus eliminating unplanned production. Also, since in the key trades state shops have taken control of the supply of goods, we have also converted private shops into state-capitalist or cooperative shops, putting a stop to speculation and profiteering.

The new situation requires that the relations of production in existing capitalist industry be moved further towards socialism. This problem has two facets.

On the one hand, since last January we have been planning production for all private factories throughout the country. For the most part this practice is correct and effective. But for certain small factories with poor equipment our planning does not work: either they cannot fulfil the quotas we assign them, or the types and specifications of their products are substandard because they cannot afford high production costs. In big coastal cities like Shanghai and Tianjin, we have not yet been able to plan production satisfactorily for certain industries that, for historical reasons, have a surplus capacity. In addition, it is easier for us to plan for big factories than for small ones. So, unless we further reorganize industry, combining certain large and small factories and redistributing quotas between regions—for example, between coastal areas and the interior—it will be hard for us to plan.

On the other hand, there are also problems in private enterprises where production has been planned and is proceeding smoothly. If they continue to accept orders from the state for a long time, they will not be able to increase production. This is because the capitalists charge us fees for processing raw materials with which we provide them, and those fees are determined on a cost-plus-profit basis, the profit being calculated as a percentage of production costs. If the costs are ¥150 and the profit is 10 per cent of the costs, then the capitalists will get ¥15. But if the costs are reduced to ¥100, the profit will be only ¥10. Therefore, the capitalists are unwilling to lower production costs, because lower costs mean smaller profits. Moreover, they are reluctant to economize on the use of the raw materials provided by the

state, since it will not be to their advantage. They are afraid that if they try to save on materials and produce inferior goods, the goods will be returned. They may also increase production costs by raising workers' wages. In short, when the capitalists accept orders from the state, they will use every possible means to raise production costs and thus increase profits. If this situation is not rectified, it will be impossible for them to expand production. The present method of having the state place orders with the capitalists for manufactured goods and pay them fees<sup>95</sup> represents a step forward, because it enables us to bring some order into production and to put a stop to the capitalists' speculation and profiteering. This method, however, is only a provisional one; it would not be appropriate to apply it for a long time. What we should do now is to take another step forward.

Here I should like to put forth six suggestions regarding the socialist transformation of capitalist industry and commerce.

1. *We should draw up an overall nationwide plan for production in all enterprises.* If a plan covered only the state sector and not the private sector, it would not be an overall plan. Eventually, the plan for the state enterprises would be ruined by unplanned production in the private ones. In all our past efforts to readjust industry and commerce<sup>73</sup> and the relations between the state and private sectors, we have always portioned out some of our production quotas to private enterprises so that they can keep operating. This means that we have had to revise the plan for state enterprises. So if we don't plan production for private enterprises as well as public ones, we shall not have an overall plan. A capitalist state could never have an overall plan. Only a socialist state can make and implement an overall plan that covers not only industries that are having trouble maintaining production but also those that are operating normally. At present, we don't take the initiative to plan production in capitalist enterprises, unless they run into problems and ask us to do so. In the early years of New China, we arranged production in all industries essential to the economy and to people's everyday lives. First, we planned production of cotton yarn and cloth and then of grain and other goods. The number of industries for which we plan production is bound to increase until all of them are included in our plan.

To make an overall plan we should take the overall situation into account, putting an end to departmentalism and the tendency to consider only partial and local interests. How does this tendency manifest itself? For one thing, we put too much emphasis on development and not enough on management. We manage the industries that are having difficulty maintaining production but not generally those that are expanding. All the industries that ran into difficulty last year had previously gone through a period of

uncontrolled expansion. Experience shows that problems arise if we emphasize expansion to the neglect of management. Another manifestation of our failure to take the overall view is that the plans of the various ministries and commissions cover state industry only, without incorporating the production capacity of private industry. We must recognize that private enterprises will all be nationalized sooner or later. The sooner we begin to plan their production the less the state will have to invest in them and the less confusion there will be.

Still another manifestation is that we pay close attention to our own areas to the neglect of others. This involves the relations between industry in the interior and industry in the coastal regions. Historically, industry in China first developed in the coastal cities; now we have to establish more factories in the interior. But this could cause problems for production in the coastal cities, since they already have a surplus capacity. Of course, it is not good to have all factories located in Shanghai and other coastal cities, while the inland localities serve as a source of raw materials and a market for finished goods. Before deciding where to locate factories, whether along the coast or in the interior, we should make a comprehensive study of the supply of raw materials, production, marketing and transportation. We have similar problems in handicraft industry. When we expand such industry in rural areas, we often don't consider whether this will throw urban handicraftsmen out of work.

Overall planning covers a wide range. We have to try to resolve the contradictions between the state and private sectors, within the private sector, between mechanized industry and handicraft industry, between regions, between industries and between immediate and long-term interests. We must recognize that to carry out the socialist transformation of capitalist industry and commerce across the country, we must make an overall plan for production.

2. *We should reorganize all industries to some extent.* We are making an overall plan for production in a country where there is still capitalist industry. Generally speaking, capitalist industry is scattered, and most of the factories are small and backward. There are about 130,000 private factories throughout the country, of which more than 1,900 have been converted into joint state-private factories. The output value of these joint enterprises accounts for 58 per cent of the total, while the output value of the other 120,000 factories comes to only 42 per cent. State stores do not place orders with these factories, because their products are substandard and there is no market for them. If we asked state enterprises to share some of their production quotas with the private factories, this would mean that advanced

factories would portion out some of their quotas to backward ones, which would not make sense economically. It is therefore necessary for us to reorganize the industries; otherwise, we cannot plan production.

We are already quite experienced in this regard, and the reorganization of the Shanghai Pen and Pencil Company is a typical example.<sup>172</sup> This year the company had to cut its production by about 40 per cent, which meant that 2,500 redundant workers had to be transferred to other jobs. But since we reorganized the entire pen industry, we were able to solve this problem. Generally speaking, we used two methods in the reorganization. One was to merge smaller factories with bigger ones that could assist them in their production, or to combine several small factories to form a large one. The other method was to close small factories with outmoded equipment and transfer their workers and other employees to large, modern factories. By these means 186 factories were consolidated into 98, and all 2,500 redundant workers were placed. These 186 factories fall into three categories. Some of them are making a profit, others are breaking even and will soon begin to make a profit, and still others can maintain production if the wages of their workers and office staff are slightly lowered.

The methods used in the reorganization of the Shanghai Pen and Pencil Company have also been applied to joint state-private factories in Shanghai, Tianjin and Beijing, and to factories and shops in other places. It is the responsibility of larger and more advanced factories, whether state-owned or private, to assist smaller and more backward ones in their production. They must do this for the sake of the state. In our effort to avoid overproduction and rectify the relations between advanced and backward factories, we must never adopt the capitalist method—that is, we cannot allow large enterprises to drive smaller ones out of business with no concern for the unemployment caused. We must solve the problem according to socialist principles, by having the stronger factories help the weaker.

3. *We should convert all private enterprises into joint state-private enterprises.* It has to be done, and now is the time to do it. This is not simply someone's arbitrary idea; economic development has made the conversion the necessary next step. Now that we are planning production and reorganizing all enterprises, they have to be converted into joint state-private enterprises. But with more than 100,000 enterprises in the country, if we continue to convert one after another, when will we ever complete the process? Of course, there are two ways to accomplish the task. In large cities, where there are many shops or factories engaged in the same trade or industry, we can convert most of them all at once, while waiting for the small number that are unwilling to be converted for the time being. In smaller

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places, where there is only one large enterprise, that enterprise can be converted by itself.

Converting all factories to joint ownership at the same time is the most advanced way to proceed, because it is fastest and will produce the best results. That is, it will break down the walls between factories, which represents a step forward, and it can not only raise productivity but also facilitate the transition to socialist ownership. Lenin once said something to the effect that the bourgeoisie had established trusts that we could confiscate under socialism.<sup>173</sup> Converting all enterprises to joint state-private ownership will make it easier for us to bring them under the ownership of the whole people. Of course, in jointly owned enterprises we still have to handle properly the relations between public and private interests.

Is it necessary to change the names of the factories and shops? I think it would be best to preserve them. If we changed all their names to numbers, it would be confusing, and not nearly as good as the variety of names such as the Ruifuxiang Silk Shop and the Quanjude Roast Duck Restaurant that we have now. That will make the capitalists feel better too, since these names have been passed down for generations and the proprietors would be unhappy to see them disappear.

When we convert capitalist enterprises, we should find employment for all persons who used to hold responsible positions in them. What if some of them are counter-revolutionaries? That is a different question that should be dealt with separately. Hiring them means providing them with a living. They didn't depend on President [Dwight D.] Eisenhower for a living. Instead, they have been making their living here in China and in their own shops, so if we continue to allow them to do so, we don't have to do anything more for them. What about their wages? In most cases, they should not be lowered. The capitalists and their representatives fear that although they are now employed, their wages will be reduced. Since in future they will not be receiving fixed interest on their assets, if we lower their wages, they would be under a pincer attack. We cannot do this; we must offer them a living.<sup>174</sup> I think that we should first of all solve the most pressing problems, such as fixed interest and special companies. As for the capitalists' wages, leaving them unchanged will not cost much. What if their wages are higher than the standard for state enterprises? We can maintain them at that level as a temporary measure or think of other ways to ensure that they get enough income.

We should not let capitalists who have management skills simply sit on the sidelines; rather, we must make the fullest possible use of them. Capitalists include very different sorts of people. Although a few of them

are useless playboys, many others are intelligent and capable. At present we are unwilling to use these people, and that is not good. Some of our comrades are afraid that they will be no match for the capitalists. In my opinion, there is no reason to be afraid. After all enterprises have been converted to joint state-private ownership, all business will be conducted in accordance with the rules and regulations governing socialist enterprises. What is there to be afraid of, when the capitalists are in the middle, caught between the State Planning Commission and the ministries of the central government on the top and the workers at the bottom? In managing factories, we can compete with the capitalists. As long as we are level-headed and avoid major mistakes, socialist methods will surely be able to triumph over capitalist methods. There is no need to fear the capitalists; we should allow them to work for us. People who represent the state in joint enterprises should improve their skills and learn all they can; otherwise they will lose their positions. First of all they should help make production a success, working in particular to lower production costs and improve product quality. If we can do a better job than the capitalists, they will have no reason to complain about us, the workers will trust us and what we say will carry more weight.

4. *We should extend to more areas the practice of paying capitalists a fixed rate of interest on their assets.* This means that instead of letting capitalists gain a portion of the profits of an enterprise, we pay them a fixed rate of interest according to the value of their assets. At present there are two ways of dividing profits. One is called “giving each of the four horses a share of the fodder”, a method with which you comrades are all familiar.<sup>175</sup> The other is paying a fixed rate of interest, a method that has been applied in industry and in post and telecommunications. Most of the country’s joint state-private banks are also using this method. In Shanghai there are still some private banks maintaining their former names. These are useful because they can bring in overseas deposits. Other banks, such as the four in the North and the four in the South, have all been converted to joint state-private ownership.<sup>176</sup> As a matter of fact, they have become savings branches of the People’s Bank, bringing in deposits for the state.

The method of fixed interest has proved very useful. Under this method, great changes have taken place in the relations of production in factories, in relations between the state and factories and in relations between capitalists and factories. It ensures that proprietors obtain a fixed part of profits for a given term while, for the most part, the state can manage enterprises in accordance with socialist principles. In this way, the capitalists benefit, but the state benefits even more. Moreover, though the capitalists preserve the rights to their assets for the time being, they cannot sell them, and they can

obtain from them only the fixed rate of interest. The real power to manage the factories has been transferred to the state. In what way are the capitalists and their representatives allowed to participate in management? They do so in their capacity as ordinary workers, not as capitalists as they did before. Because of these changes in the relations of production, it is possible to use in jointly owned enterprises all the methods of management used in state-owned enterprises. Thus, while placing orders with these enterprises, we can eliminate the factors that impede progress.

Some industrialists and merchants have already proposed that we first fix a high rate of interest and then gradually lower it. I agree that this should be done. Since the total is a fixed amount, it does not matter if we give them more at first and less later. But what if the big capitalists receive too much interest? There are many ways to solve this problem. For example, we could introduce an income tax and an inheritance tax. We have not done that so far, but we could impose heavy taxes on the capitalists to control their income, so that everything in excess of a certain figure would go to the state. This is one way the government can prevent the capitalists from making too much money and accomplish their socialist remoulding.

For big capitalists it will not be too hard to institute the fixed-interest method, because they can still earn a great deal of money each year that way. However, this is not the case with the small capitalists, who may only have assets worth ¥500, for instance. If the annual interest rate is five per cent, that amount would yield only ¥25 a year, or ¥2 a month, an insignificant amount. At present the middle-level capitalists—those having less than ¥10,000 in assets—are mainly worrying about their salaries, demanding that they be given appropriate positions and that their salaries remain at the former level. As for the interest, they are aware that it would be unreliable and insufficient, and that they have long since stopped making a fortune by doing business with foreigners. How much capital do the capitalists in the country have altogether? According to rough estimates, there are ¥2.5 billion in industry and ¥800 million in commerce, making a total of ¥3.3 billion. If the fixed interest rate is five per cent, we shall pay the capitalists ¥165 million each year; that sum of money should suffice to provide a living for all of them.

5. *We should establish special companies to administer private and joint enterprises in all trades and industries.* Why? Because we must organize the hundreds of thousands of private factories, millions of private shops and millions of peddlers before we can include them in our plan. Establishing special companies is an important way of organizing private industrial and commercial enterprises. It is true that ministries and commissions of the

central government and bureaus of local governments are in charge of private enterprises, but how can a bureau be responsible for the hundreds of thousands of factories in so large a city as Shanghai? We must organize them, just as we braid long hair to keep it in order. In addition, we need special companies if we want to plan production for all enterprises, reorganize them and convert them into joint state-private enterprises.

In establishing special companies, we may group together enterprises that are more or less closely related. That is, depending on the total number of factories and shops in a given locality, some special companies may cover only enterprises in a single industry or trade, while others may include enterprises in several different lines. In a small place, we might set up just one company, called an enterprise company, which would include all the trades and industries there. This kind of special company could be set up either before or after we have converted the enterprises to joint ownership. The companies will be responsible for both economic and political tasks. Chief among these will be to control the orders placed by the state, manage production, provide guidance in upgrading technology and take charge of the socialist transformation of the enterprises under their jurisdiction. They should establish political departments to educate workers, office staff and capitalists. In the changed situation, new methods should be used in the class struggle against the capitalists.

What will be the nature of the special companies? The capitalists wanted them to be in the form of trusts formed by the private factories, so that smaller factories could be merged with bigger ones. The special companies we are talking about, however, would be organs for directing joint state-private factories and private factories, and they should be state companies, not trusts set up by the capitalists. Why do we say state companies? Because the special companies will be responsible for distributing raw materials to state-owned, joint state-private and private factories in their respective localities, assigning production quotas to them and purchasing their products. I told members of the All-China Federation of Industry and Commerce<sup>87</sup> that since the raw materials and the funds the companies control all belong to the state, it would be unrealistic to say that the companies did not belong to the state.

Some joint state-private factories, such as the Yongli Chemical Plant in Tianjin, are very large. Factories like this can only be administered by the central authorities; they should not be placed under the local special companies. However, the state should entrust the management of private enterprises to the special companies, because private factories depend on the state for orders and private retail shops depend on the state for their source

of merchandise. The headquarters of such private enterprises as the Shenxin and Yongan textile companies in Shanghai should be preserved for the time being to serve as branches of the special companies.<sup>177</sup> In most cases, however, individual factories should dissolve their headquarters and transfer their office staff to the production workshops or to the special companies.

Every special company should establish a board of directors. When the board meets to discuss suggestions made by the capitalists, representatives of the state should also attend. Some old and weak people may be appointed members of the board so that they can earn some income. Trade councils<sup>86</sup> should also be preserved; because of the people who depend on them for a living, they should not be disbanded all at once. Persons who hold responsible positions in capitalist enterprises (as opposed to shareholders who do not actually participate in management) should be encouraged to take part in all types of work as appropriate. In every trade and industry prominent capitalists should be given important posts. The manager of the Shanghai Pen and Pencil Company is one of us, but there are two assistant managers who are former capitalists. These are two women: Wu Gengmei and Tang Diyin, the latter being also a deputy to the National People's Congress. In future we should establish more posts for assistant managers.

The Party should send many competent cadres to the special companies, because for some time to come they will be no less important than the state enterprises. It is the special companies that will have to transform the enterprises, struggle with the capitalists and remould them so that they earn a living through their own labour instead of by exploiting others. This will be a complicated and difficult task.

6. *We should prepare overall plans and provide more effective leadership.* First of all, we should work out state plans for all industries, including in them the production capacity of private enterprises. The relevant ministries of the central government should be responsible for handling this matter with the help of local authorities. Second, in different regions we should plan the socialist transformation of the various industries and trades in the order of importance and urgency. This task should be accomplished mainly by local authorities in cooperation with the relevant ministries of the central government. We must recognize that since we have just begun to carry out the transformation, there may be many problems. It would be a mistake to ignore these problems or to underestimate them. The transformation should be carried out by stages and not in all industries at once.

We must strengthen education among Party and government cadres as well as among workers, office staff, capitalists and their representatives in private enterprises. If we are to carry out successfully the socialist transfor-

mation of capitalist industry and commerce, first of all, the leading cadres—ministers, vice-ministers, bureau directors and so on—must understand the importance of the transformation and make it a considerable part of their work. At the same time, it should be remembered that the transformation is not just a matter for a few leading cadres; we must explain the need for it to all government personnel who deal with private enterprises. After the movements against the “three evils”<sup>112</sup> and the “five evils”,<sup>121</sup> many government employees are reluctant to come into contact with any capitalists, for fear of being corrupted by them. Of course, that has happened in some cases, but the major problem is that they are afraid to deal with the capitalists. We must educate them by showing them examples of cadres who have been able to act in accordance with Party policy without fear of the capitalists’ attempts to corrupt them. It would be wrong for us to mingle with the capitalists, abandon our principles and become corrupt. But it would also be wrong for us to refuse to come into contact with capitalists and give up our efforts to educate and remould them. We must deal with them and resist corruption. Once, in a joint enterprise in Tianjin, when a representative of the state came back from a meeting, one of the women managers on the private side, seeing that he was very busy and would not take time to eat, prepared a bowl of noodles for him. The representative pounded the table and cried, “Are you trying to corrupt me?” That was going a bit too far. We need to teach Party and government cadres how to carry out united front work.

We should also educate the workers and office staff in private enterprises. Private enterprises are being converted into joint state-private enterprises, and this change in the system is bound to affect their interests. When a Beijing store selling cotton cloth was being converted to joint state-private ownership, some of the employees said that they were willing to work for the state concern, but that they were afraid they would be required to work harder, their wages would be lowered and they would have no say in matters. Since liberation, in private enterprises the workers’ opinions count, and the capitalists have to listen to them. However, things are different in state enterprises. Since the managers and directors of such enterprises also belong to the working class, their opinions count too, and they have the final say. Accordingly, workers in those enterprises feel that their status is not as high as it was when they were in private enterprises. Nevertheless, they are generally willing to become workers in state enterprises because the latter offer them an “iron rice bowl” [i.e., “unbreakable” or permanent job security], and it is therefore better to work for the state than for a capitalist.

Whom shall we rely on in transforming private enterprises? Since we can send only a limited number of cadres to these enterprises, we must rely

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chiefly on the workers and office employees. This means we have to persuade them to accept our thinking. We also have to educate the capitalists and their dependents. At the recent meeting of the All-China Federation of Industry and Commerce, many capitalists said, "I'm convinced, but my wife is not."<sup>178</sup> Others said, "The two Vice-Premiers [Chen Yun and Chen Yi] talked for hours, but their remarks still didn't hold up against what my wife said to me when I got home." So it's important to educate the capitalists' dependents too.

Both inside and outside the Party we must publicize the Party's principles and policies regarding the socialist transformation of capitalist industry and commerce. The ministers and directors must take personal responsibility for the transformation. Every relevant department of the government should establish a special organization to be in charge of the transformation. Don't we have a surplus of government personnel? Why not assign some of them to this work? By the end of next January all local Party committees and ministries and commissions of the central government must draft plans for the transformation of capitalist industry and commerce in their localities or under their departments. The plans should set forth which trades and industries are to be transformed first and which later, how many are to be transformed by a given date and in which year the transformation will be completed in all trades and industries. The central government has decided to draw up by next March a tentative plan for the transformation of capitalist industry and commerce.

## **PROBLEMS RELATING TO THE ESTABLISHMENT OF JOINT STATE-PRIVATE ENTERPRISES**

*January 25, 1956*

Now that joint state-private enterprises are being established in all large and medium-sized cities, there are some problems that merit our attention.

1. When all the private industrial and commercial enterprises in Beijing began to be converted into joint state-private enterprises, those in other parts of the country soon applied for conversion, and every day people were beating drums and gongs and setting off firecrackers in celebration. But we should recognize that we have only just begun this process; we still have to inventory the assets of private enterprises, plan their production, reorganize them, place those employees who are no longer needed and establish special companies to manage them. We approved the establishment of joint state-private enterprises but we simply postponed the necessary work. We have to keep this in mind.

2. All shops, big and small, even those run by husband and wife, have become joint state-private enterprises. In Beijing, for example, there were twenty thousand private shops, more than half of which employed no shop assistants. At first, the government wanted the shops run by the owners to sell goods on commission. But as more and more private enterprises were converted, these shopkeepers began marching through the streets with drums, gongs and firecrackers to submit their applications too, so the government had no choice but to approve them. There are a great many of these small shops, and if we treat them the same way we do the big shops run by capitalists, they will lose their utility. For instance, opposite my house there is a shop so small that it can accommodate only two customers at a time. However, it sells a wide range of commodities needed by the people in the neighbourhood, such as writing brushes, ink sticks, ink slabs and paper, toothbrushes and toothpaste, needles and thread and even stamps. Small

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Excerpt from a speech delivered at the Sixth Meeting of the Supreme State Conference.

shops like that one sell necessary goods and are a convenience for the people living nearby. Unlike state department stores, they sell goods in small quantities. The state stores sell envelopes by the package and letter paper by the pad, while these small shops also sell a single envelope or sheet of paper. They also have different business hours. The state department stores are open eight hours a day and they close on time, while these small shops sometimes stay open until midnight. They can stay in business because they meet the needs of the people. But if these shopkeepers, no matter how hard they worked, received only a daily ration of 1.25 kg. of millet and a small allowance for cloth as government employees do, and if they were paid only 30 or 35 yuan a month, I'm afraid they would not bother to stock a variety of goods or stay open until midnight. If all these shops became joint state-private enterprises, the shopkeepers would not be interested in selling goods, and that would create difficulties for consumers. So they should continue to sell goods for the state on commission. In short, for these small shops, there are two alternatives: some of them can be incorporated into state companies or become joint state-private enterprises, others should continue to operate independently for a long time to come.

Handicraftsmen and peddlers should be allowed to do business on their own for an even longer time. For example, if the carvers formed cooperatives to buy raw materials and sell their products, they would have no incentive to produce good work. What should be done about the itinerant peddlers who sell won ton soup in Beijing? What about the ones who sell sweet lotus-seed porridge in the lanes of Shanghai? They can wait a much longer time. However, if they ask to form cooperatives, they can do so simply by putting up new nameplates and registering with the appropriate authorities. If they are organized into groups to purchase the ingredients, prepare the food and keep the accounts, the danger is that the quality of the product will deteriorate—the won ton dough will be too thick and the pork will go bad. That is why these peddlers should continue to operate independently for a long time to come. If we incorporate them into cooperatives, it will benefit neither the people nor the state. We have to reorganize industrial and commercial enterprises, but not all small factories and shops. If we merge them all indiscriminately, it will harm economic activity.

3. When private industrial and commercial enterprises become joint state-private ones, they should continue to use their original methods of production and management for a time rather than discarding practices that have proved successful. When we monopolized the purchase and marketing of products made by private manufacturers, in the absence of competition they preferred to produce everyday goods of mediocre quality, instead of

quality goods in small quantity. When private enterprises come under joint state-private management, this problem will most likely become worse. For instance, in Beijing the Donglaishun Restaurant used to be famous for its hotpot mutton, but the dish is no longer good.<sup>179</sup> Why? Because we arbitrarily changed the chief ingredient. The mutton used in the past came from young short-tailed sheep weighing between 17 and 21 kg., and it was very tender. Now, however, we provide the restaurant with meat from old sheep, frozen mutton or even goat's meat. So no wonder the dish doesn't taste the same. Also, when the restaurant became a joint state-private enterprise, we made it reduce the price of mutton from ¥2.56 a kg. to ¥2.16, the same price as in other restaurants, saying this was in the interest of the customers. As a result, the mutton was tough, since the restaurant had to use cheaper meat that was not suitable for the dish. Lastly, one cook had been accustomed to cutting 15 kg. of thinly sliced mutton a day. When the restaurant became a joint state-private enterprise, to increase productivity each cook was required to cut 25 kg. a day. To make that quota he had to cut thick slices. Of course, the tough, thick mutton is not particularly good to eat. Another example is the roast duck at the Quanjude Restaurant in Beijing. It takes only about a hundred days to raise a duck from a duckling, and the main feed is supposed to be green gram and millet. But since we monopolized the purchase and marketing of grain, the restaurant has been able to get only ducks raised on labour-reform farms, which are older and not so well fed. Naturally the roast duck is no longer a delicacy.

We should pay serious attention to these problems. Industrialists and businessmen should do all they can to maintain both quality and variety of goods. In a joint state-private enterprise a manager or deputy manager representing the capitalists should be placed in charge of this work. If problems arise, he should report them immediately to the other leading members of the enterprise or to the special management company. And if the special company doesn't solve the problems, he should report them directly to the Central People's Government. The state should give awards to people who maintain the variety and quality of commodities.

## **SOLUTIONS TO PROBLEMS ARISING FROM THE CONVERSION OF CAPITALIST ENTERPRISES TO JOINT STATE-PRIVATE OWNERSHIP**

*March 30, 1956*

I should like to discuss five points related to industry and commerce in China after the socialist transformation of capitalist enterprises.

*First, most private enterprises should remain unchanged, while a few should be modified.*

After enterprises have been converted to joint state-private ownership, we shall reorganize them. That does not mean, however, that we are going to amalgamate all factories and shops. Since January, when we began the conversion of private enterprises, a significant number of them have been combined. In some cases it was correct to combine them, but in many cases it was not. The mistake was made most often in handicraft industry. Since handicraft enterprises involve small workshops with few machines, it was convenient to merge them. In Beijing, for instance, bicycles are very popular, numbering about 400,000 or 500,000, in comparison with 180,000 just after liberation. Back then, it was very easy to have a bicycle repaired, since every street had a repair shop. Later, since household repair shops were considered inferior, they were combined to form “higher-level” operations. As a result, there are fewer repair shops, and it takes a long time to find one. This is a great inconvenience to the local people. Another example is the barbershops. There used to be many itinerant barbers in Beijing, who provided service on the streets, in workplaces, and in customers’ homes, making it very easy for people to have their hair cut. As a result of the conversion to joint state-private ownership and the cooperative movement, in some neighbourhoods these barbers were reorganized into shops. In places where there were

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Speech delivered at a national conference of family members of industrialists and merchants and of women who were themselves industrialists or merchants. It was published in *People’s Daily* on March 31, 1956.

few barbershops to begin with, the disappearance of the itinerant barbers has been inconvenient for the masses, particularly for dock workers and peasants living in the suburbs.

There were two reasons for these ill-advised mergers. One, as I mentioned above, was the belief that collectivization was superior to individual endeavour and would pave the way for socialism. Another and more important reason was that those in charge of management considered only the convenience of managing one large operation, and not the desirability of merging. Who should bear responsibility for this? Some people blame the cadres working at lower levels. I disagree. I think it is the leading cadres who are chiefly to blame, and first of all myself. Some people say that the central authorities in Beijing announce good policies, but the local cadres don't execute them properly; that when the abbot reads a line from a sutra aloud it sounds fine, but when the monks recite after him it comes out all wrong. This view is incorrect. It is we who are responsible for the mistakes made by cadres at lower levels, because we did not explain things clearly to them. The State Council never issued an order stating that bicycle repair shops and itinerant barbers should not be collectivized.

What should we do about enterprises that have been wrongly merged? We should split them apart and restore them to their original structure. Our experience since the beginning of this year shows that we cannot launch a large-scale consolidation of private factories and shops. In other words, we should leave most unchanged, while modifying a few. This is a relatively good method. Modifying a few does not necessarily mean that those few should all be merged into one. We may assign more workers to one enterprise and fewer to another; or we may merge one shop or factory with another; or if one shop is doing little business, we may transfer some of its personnel to a larger one. Also, leaving most enterprises unchanged does not necessarily mean that everything is to be left as it was. First, private factories and shops have been converted into joint state-private enterprises, and second, scattered firms previously under separate management are now under the unified leadership and management of special companies. Leaving most unchanged while modifying a few is not a short-term policy; it will remain in effect for ten or more years.

Since many industries and trades throughout the country have not yet been reorganized, many entrepreneurs are still taking a wait-and-see attitude. I'd like to take this opportunity to tell everyone that relatively few enterprises will be merged; 70 or 80 per cent of all enterprises will not be. There's no need to wait and see: you may rest assured of that and go about your business.

*Second, we should improve the quality of products and increase their variety.*

Will our work improve after the conversion to state-private ownership? I think so, because the workers are more enthusiastic than in the days of private ownership, and most entrepreneurs take a positive attitude toward joint ownership. Unified management by the special companies is more rational than decentralized management and represents a step forward. This indicates that conditions are favourable for improved performance, but we should not be overconfident. Some enterprises are turning out products of poorer quality and less variety and are managed more carelessly than in the days before joint ownership. There are not many of these, but if we ignore the problem, it may spread. Why is it that these factories are turning out products of poorer quality and less variety? One reason is that they only want to turn out more products at a faster rate. But if they are constantly changing their machinery and materials, they will produce less and at a slower rate. To avoid problems, some factories manufacture only everyday goods of mediocre quality. All they are concerned about is their own convenience; they ignore the needs of the consumer. Another reason is that without a profit incentive, some factories think it makes no difference whether the product is good. Since the introduction of a state monopoly of purchase and marketing in 1953, the quality and variety of some goods have fallen off. The monopoly is necessary to stabilize prices and prevent speculation and profiteering, but one drawback is that since the government buys everything that is produced, factories are paying less attention to quality and variety.

Now I want to ask the private industrialists and merchants and the cadres who will represent the state in joint enterprises to run those enterprises better than before the conversion. For this purpose, they should see to it that the following three things are done. First, factories should improve the quality of products and manufacture no shoddy goods. Second, they should increase the quantity of products as much as possible, given the availability of raw materials and markets. This is not to say that production should be increased across the board; the availability of raw materials and markets should be considered first. Third, shops should continue to offer a variety of commodities.

What can we do to ensure quality and variety? Here are some suggestions:

- 1) Certain commodities, such as everyday necessities, should be exempted from state monopoly. The state will challenge manufacturers by buying quality goods and rejecting inferior ones. When the price of inferior goods falls, and the factories producing them begin to lose money and find themselves unable to pay their employees, managers will have to use their heads to improve quality and increase variety. The exemption of selected

commodities from state monopoly should proceed in stages and according to a plan.

2) Bonuses should be given to people who design good products, such as factory engineers and fashion designers. In Shanghai there is a shoe store with its own workshop that awards a bonus of five *fen* [100 *fen* = 1 yuan] to the designer for each pair of shoes sold. If 10,000 pairs of shoes are sold in a year, the designer gets ¥500 in addition to his regular salary. This is a good system, because it offers designers an incentive. It should be introduced in other areas of manufacturing.

3) Goods of higher quality should be sold at higher prices and goods of lower quality at lower prices. Now there is no difference in price between superior and inferior products. This is not good. The stabilization of commodity prices was a significant achievement, but it has been carried too far, since now we cannot raise or lower the price of goods to reflect their quality. It is time to change this situation.

4) The manager or deputy manager of a factory or store should take personal responsibility for its operation. Generally speaking, people in industry and commerce who have been in managerial positions should continue to hold their posts, since they are specialists and know more about their business matters than government cadres.

5) We should be sure to use high-quality raw materials; without them, it is impossible to produce first-class goods. The poor quality of last year's cigarettes was due to the use of low-grade tobacco. It is the same with other products.

*Third, we should assign capitalists and the managers who represent them to appropriate jobs.*

Since the introduction of joint state-private ownership, the job assignments for capitalists and their representatives, and for cadres who were formerly workers, vary from place to place. In factories and shops that have already been reorganized, most capitalists and their representatives remain in their previous posts as managers or deputy managers, and only a few worker-cadres have been promoted to leading positions. In places where special companies have been established, some capitalists have been assigned to leading posts in them. Where special companies have not yet been established, capitalists have been invited to assist in preparatory work, but without holding formal positions. Most of the enterprises in small cities have been reorganized, but most of those in large and medium-sized cities have not. Since special companies have not yet been set up there, a great number of capitalists have not yet been placed.

The situation is similar for worker-cadres. According to government

policy, some workers in enterprises should be promoted to positions of leadership. But since most enterprises have not yet been reorganized, this has not yet been done. The work in factories and shops will suffer if no workers are offered responsible positions.

It is the government's policy for capitalists to remain as managers in their enterprises. Workers, however, may be dissatisfied and complain that capitalists were factory directors and managers before the conversion to joint state-private ownership and they still are, that they hold the same position under socialism as under capitalism. You must be prepared for such remarks and not be angered by them. For a long time workers and capitalists were opponents, and it is hard to overcome their antagonism overnight. It is like two people who have had a fight; you can't expect them to sit talking and laughing together. The government should make it clear to the workers that the capitalists are willing to convert their enterprises into joint state-private enterprises and that if they are rejected, they will have no way of earning a living, which would not be right. Capitalists today are different from what they were. They used to work for their own profit, but now they are working for the state. Some of them have technical skills and professional experience greatly needed by the country. Workers are reasonable people and will come to realize that they have to unite with the capitalists. Likewise, the industrialists and businessmen will have to change their attitude toward workers and toward their own work.

Many capitalists and their representatives are still worried about whether they will be appointed as managers, and if so, whether their positions will be secure for any length of time. Some think that the Communist Party will let them first taste sweetness, then bitterness — that even though they retain their positions today, they may be rejected tomorrow. Industrialists and merchants throughout the country are concerned about these three questions: whether they will be given jobs, whether those jobs will be secure, and whether they will be at a high level.

The government's view is that the overwhelming majority of industrialists and merchants have skills and experience that will benefit the people, the country and socialist construction. Only a few are not well qualified. Our country needs people with technical skills and business experience. The state treats capitalists and landlords differently. Landlords can only stand in the way of production, while capitalists, with their skills, are able to manage factories and organize production. The government provides positions for capitalists not because it particularly favours them but because doing so is to the advantage of the country and the people. They need not worry about their jobs. Only, they will have to be remoulded into people who work for

a living and become cadres in socialist enterprises.

Are they to be offered positions today only to be discharged tomorrow? No. Their appointments are secure. Since liberation they have supported the people's government, supported the agrarian reform<sup>64</sup> and supported the War to Resist U.S. Aggression and Aid Korea.<sup>88</sup> They accepted reeducation during the movement against the "five evils".<sup>121</sup> More recently they have taken an active part in the conversion of all private enterprises into joint state-private enterprises. All this is good. The Communist Party is reasonable: the more good deeds you perform, the more benefits you will receive, and the more you will achieve.

We shall do our best to assign industrialists and merchants work that is appropriate to their skills, experience and ability. These, however, are not the only considerations. To be frank, there is another consideration that is even more important: their attitude toward work. It is possible that inappropriate appointments will be made: some people may be assigned to positions lower than they deserve. But that is only because the government is not yet familiar with them. The same kind of thing happens sometimes within the Party when we assign cadres. In that situation, if they do their work well, they will be promoted. By the same token, if a person given a higher position does not perform well, the people will be dissatisfied and that person will be transferred to a less responsible post. So industrialists and merchants need not fear low-level assignments. Provided they have a good work attitude and possess the necessary skills, the situation will eventually be rectified. In general, the level of responsibility to which they are assigned should correspond to the size of the contribution they can make to the country and the people. Any other criterion would be unfair.

I must remind you that although you have skills and experience, you are now faced with a new situation: the capitalist enterprises have been transformed into socialist enterprises and cannot be managed entirely by traditional methods. Thus, people in industry and commerce must study. I am pleased to see that, together with their family members, they are now doing so, under the leadership of the China Democratic National Construction Association<sup>180</sup> and the All-China Federation of Industry and Commerce.<sup>87</sup> Besides politics, they should study materials relevant to their professions and improve their skills, so they will be better able to meet the needs of socialist reconstruction.

*Fourth, we should provide capitalists and their representatives with appropriate salaries.*

All industrialists and merchants are concerned about their salaries. As everybody knows, despite fixed interest,<sup>174</sup> sooner or later they will all have

to live on what they earn. In some joint state-private enterprises, the capitalists and their representatives earn higher salaries than cadres of equivalent rank in state enterprises. They are afraid their salaries may be reduced. They feel they could not withstand the simultaneous shock of socialist remoulding and a cut in pay. I can assure you that the government's policy is not to reduce salaries. Out of hundreds of thousands of capitalists and their representatives, only a few whose salaries are currently too high will have to take a cut in pay. And even then they will not have any trouble making ends meet, so they too will support our policy. In small cities, some capitalists earn less than their opposite numbers in state enterprises. What should we do about them? The government's policy is not to raise their wages for the time being, because most employees in small factories and shops earn less than those in state enterprises. When the pay of all workers and office staff is raised, their pay will be raised also.

The capitalists and their representatives can be divided into several groups. The first group earn more under the system of fixed interest than they did under the system of "giving each of the four horses a share of the fodder".<sup>175</sup> Some of the people in this group experienced hard times in the past. When business was bad and profits were low, they had trouble making ends meet. Now that their enterprises have been converted to joint state-private ownership, however, they are paid fixed interest on their assets. Their income is secure, because the expenses of their enterprises are covered by the government irrespective of profits or losses. The second group receive approximately the same income as before. Generally, their enterprises earned modest profits before conversion to joint ownership, and their salaries have remained about the same.

The third group earns less since the conversion. This means not that their salaries are low but that the profits of their enterprises were greater than the fixed amount of interest they receive now. Also, while they used to be able to draw their payment in advance, at any time until the books were closed at the end of the year, the rules of state enterprises now prevent them from doing that. Some, because they have fewer family members, have had no financial problems despite the decrease in pay. Others, with large families to feed, have had problems. Most of the latter were owners of small shops and factories, and the government wants to help them. Family members who previously helped out in a family enterprise should, for the most part, be permitted to continue working there. If the enterprise cannot use them, the special companies should help them find piece work to do at home or provide them with temporary jobs. If that doesn't solve the problem, the government should consult with the local federation of industry and commerce and the

special companies to find solutions and provide relief. Children must not be allowed to go hungry. I am optimistic and believe that these problems will be solved. The main reason why some people have heavy expenditures is that they have large families, but children grow older every year, and when they reach adulthood, both boys and girls will find jobs, which will eventually reduce the household's burden.

While I'm on the subject, I should like to take a moment to discuss a problem that arose last January and February when people were celebrating with drums and gongs the introduction of joint state-private ownership. Some factory owners, shopkeepers and their family members pooled their resources and sold their gold, U.S. dollars, *renminbi*, jewels, and even real estate to increase the capital invested in their enterprises. This was a good thing, an indication of progress. Under the fixed-interest policy, adding capital is the same as making a donation. However, if we encourage people to do this, it may have undesirable consequences, and a good thing will turn bad. Since we did not permit the newspapers to publicize this activity, some industrialists and businessmen were unhappy, complaining that their good deeds had gone unrecognized. However, we had no choice. If we had publicized their donations, it would have put pressure on others who were unable or unwilling to do the same. We should certainly do our best to avoid that. The government did not embark on conversion to joint state-private ownership in order to solicit contributions, nor is that the purpose of this meeting. A donation of ten or twenty million yuan may seem to the individual businessman to be a sizable contribution, but it is not of vital importance to the government. Moreover, having given away their assets, the donors themselves may experience difficulties. Therefore, while recognizing the good intentions behind such gestures, the government hopes that individuals will not make these contributions. If those who have already done so are having problems, they should ask the government to return the money promptly. You need not feel ashamed if you have nothing to donate. The government does not expect you to contribute money. We simply hope that you will cooperate with the government, do your work well, run your enterprises efficiently and help build socialism. Some industrialists and merchants volunteered to forego the fixed interest payments, thereby giving the money to the government. I hope that others will not follow suit. Some people can afford the luxury of refusing payment, but those with large families can not. In general, it is the small households that want to refuse fixed interest, while the large households prefer to make donations. But the government does not want them to do either.

*Fifth, family-run businesses that have been converted to joint state-private*

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*ownership should sell goods for the state on commission.*

In a family-run business, all the work is done by family members and not by hired shop assistants or apprentices. There are two types of family business. One type is the small shop that is of no great importance to local residents and can be merged with others. For example, there are only a few shops in Beijing that sell typewriters, calculators and cameras. A dozen of these can be merged into three or four, and after the merger the former owners can receive fixed interest and wages. The second type of family business should not be merged but should sell goods for the state in exchange for a commission. Such shops, which are scattered evenly throughout the residential districts, deal primarily in groceries, such as cooking oil, salt, soy sauce and vinegar, and they are very important to people in the neighbourhood. We have no way of knowing how much they earn each day, nor can we send a representative to every shop to calculate the level of fixed interest. Therefore, we cannot pay the owners fixed interest and wages. Should such stores be merged? No. A consolidation would mean that some stores would close, which would be a great inconvenience to the local people and cause them to protest. This kind of family business deals in a great variety of goods that meet the everyday needs of the people. No matter how much or how little of something you want to buy or when you want to buy it, you can always do so in your neighbourhood. What would it be like if everyone had to go to Wangfujing [Beijing's busiest commercial street] to shop? Recently the people of one residential neighbourhood in Beijing even asked the government to allow the opening of more small family-run shops.

We cannot pay monthly wages to the shopkeepers who run this kind of store, however. If they were guaranteed a monthly wage, they would refuse to open the door for customers who came to buy things at midnight, telling them, "I've gone to bed! Come back tomorrow!" A monthly wage would save the shopkeepers a lot of trouble, but it would inconvenience other people. For the same reason, we cannot pay regular wages to street vendors. Take the Beijing vegetable vendors, for example. They used to hawk their produce in the back streets or lanes of Beijing. But when they formed sellers' cooperatives we began to pay them wages, and the result has been that they no longer push their carts through the city streets. The local people complain about this, which shows that the peddlers should be allowed to sell goods as before, but on commission.

As for family-run shops, when they sell goods for the state on commission, they will still be able to make a profit. When the husband is out, the wife handles the business; when the wife is also away, the grandparents and children mind the store: how can we pay them all wages? The state cannot

afford to shoulder the burden of paying every family member, and if we were to pay only one person per shop, the family would not have enough money to live on.

The owners of family-run shops are afraid that they will not be integrated into the socialist sector. I think socialist society will need such shops for a long time to come, since the people have to have everyday household items, cooking oil, salt, soy sauce and vinegar, and they like to eat bread, deep-fried dough, won ton soup and sweet rice dumplings. But the owners of many of these shops are in trouble, because they are in poor locations, they have insufficient capital and inadequate stocks, and they don't have enough money to cover expenses. The government should help them by supplying them with more goods to sell, and pay a higher commission to those who are in serious straits.

I should like to close with a few more general thoughts. For a century the imperialists dominated China and held concessions in Shanghai, Tianjin and other large cities. They not only oppressed the working people but also inhibited industry and commerce and bullied our industrialists and businessmen. The rulers of the Qing Dynasty, the Northern Warlords<sup>80</sup> and Chiang Kai-shek, who was in power for 22 years, did nothing to develop China, and all the money went to line the pockets of the imperialists, the bureaucrat-capitalists and the landlords. Now we are carrying out construction on a scale unprecedented in thousands of years. Investment in national capital construction in 1955 totalled ¥9.3 billion, nearly three times the amount of capital in private industry and commerce. How could we afford to do this? Because the workers and peasants have worked hard, and the industrialists and merchants have actively supported construction. The wealth of our country belongs not to any one individual but to all the people, and now it is being used for projects that will benefit all the people. This demonstrates the superiority of the socialist system. Our country is very large, with a population of 600 million, and it must be built into a prosperous and powerful nation. Only under the socialist system is it possible to achieve universal prosperity. Under the old exploitative system the country had no future: the majority of the people were sunk in poverty, while the minority grew ever richer. We were oppressed by the imperialists in the past. Can we allow our children and grandchildren to be oppressed by them again? Never! It is on this point that the interests of the working people and of the industrialists and merchants converge. We must have high aspirations and work together to achieve the goals of the First Five-Year Plan,<sup>151</sup> the second and on to the fifth and tenth five-year plans. By the end of this century, we shall have made China a powerful and prosperous socialist country. Of

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course, even then we shall not become conceited and imperialistic and try to impose our will on other countries.

## **PROBLEMS RELATING TO THE SOCIALIST TRANSFORMATION OF PRIVATE INDUSTRY AND COMMERCE**

*June 18, 1956*

Last January the socialist transformation of private industry, commerce and handicrafts reached a high tide throughout the country. By now, all the capitalist factories and stores, except for those in a few frontier areas, have been converted into joint state-private enterprises; in general, private handicraftsmen have been organized into cooperatives; and private transport services have been transformed into joint state-private or cooperative undertakings. As for small shops and peddlers, they have been reorganized in different ways: about 15 per cent of them have become joint state-private enterprises from which the private partners receive a fixed rate of interest;<sup>174</sup> about 25 per cent have formed cooperative stores, each of which includes from two or three to as many as several dozen households, all under unified management, the cooperative being responsible for its own profits and losses; and about 60 per cent have been buying and selling goods—or are just beginning to do so—on commission for the state stores or the supply and marketing cooperatives, in addition to selling other goods of their own.

This transformation of privately owned and managed industrial, commercial, handicraft and transport enterprises into joint state-private enterprises or socialist cooperatives is a fundamental change. Over the past six years, the people's government and the people throughout the country have devoted great efforts to preparing for the transformation. This is not the first time in the world that private ownership of enterprises has been changed into socialist ownership. But in China we use peaceful means to make industrialists and merchants cheerfully accept the change, and this has no precedent in history. We can say that we have achieved a great victory in the socialist transformation of private industry, commerce, handicrafts and transport

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Speech delivered at the Third Session of the First National People's Congress. It was first published in *People's Daily* on June 19, 1956.

services in our country. This is a victory for socialism, for the country and for all our people in their march towards prosperity, strength, and a happier life. People all over the country should celebrate this event as enthusiastically as we did the victory in the nationwide cooperative transformation of agriculture.

We cannot say, however, that the socialist transformation of private industry, commerce, handicrafts and transport services has been completed and that there are no problems or shortcomings in this work. True, the government has approved the nationwide establishment of joint state-private enterprises and cooperatives, but that does not mean that the socialist transformation has come to an end. There are many problems that need to be solved one by one. To this end, on February 8 the State Council issued a decision requiring that after private enterprises, with government approval, have become joint state-private enterprises or cooperatives, they continue to operate as they did before, maintaining their old management system for six months.<sup>181</sup> We should recognize that because we have no experience of such an extensive, rapid transformation, we are bound to make mistakes. Indeed, we have already made quite a few. The State Council's decision enables us to minimize mistakes and to correct them as quickly as possible.

Now I should like to discuss five questions.

1. *Helping some of the small shopkeepers and peddlers to earn a living.*

Small merchants are individual workers. There are about four million in the country, representing almost three million households. As we said before, they fall into two categories: 1) those whose shops have become joint state-private or cooperative ventures, and 2) those that are buying and selling on commission for state stores or for supply and marketing cooperatives and, at the same time, doing some business of their own. Shopkeepers in the first category are not having much difficulty, because they are doing much more business now than when they were operating independently. The problem is that the merchants in the second category are in trouble. They represent 25 per cent of the total and, in certain localities, as much as 50 per cent. There are two reasons for their difficulties. One is that the joint state-private and cooperative shops have been increasing their volume of business. This growing volume is attributable partly to the overall increase in retail sales this year and partly to the business given them by the state stores and supply and marketing cooperatives, but also partly to the business they are taking away from the small merchants who buy and sell on commission. The other reason is that during the upsurge of the socialist transformation, the state stores and the supply and marketing cooperatives did nothing to help the small merchants who work on commission when their volume of business began to

drop. The state stores and cooperatives didn't pay enough attention to the problem and try to solve it immediately.

Many of these merchants are now demanding four things: a source of goods, access to loans, a reduction in the number of taxes and integration into the socialist sector. We think that all these demands are reasonable and that gradually they should be met.

Now the government is ready to help these small merchants earn a living. We propose to gradually organize them into cooperative teams, one trade at a time, on a voluntary basis. These teams will operate independently in different places, and they will be responsible for their own profits and losses. At the same time, local commercial departments will designate one of the existing state stores, or a supply and marketing cooperative, or a joint state-private shop as a wholesale centre for them. The functions of the centre will be as follows: to supply the cooperative teams with commodities; to help the members obtain loans so they can overcome their financial difficulties; and to collect taxes from the members and hand them over to the tax bureau. From now on, the tax bureau must strictly collect such taxes at regular intervals, in a fixed amount that remains the same throughout the year. All expenses of the wholesale centre should be covered by the state store or the supply and marketing cooperative. It will be the responsibility of the Ministry of Commerce and the All-China Federation of Supply and Marketing Cooperatives to investigate the income of small merchants in various places and distinguish between those who earn their money chiefly from their businesses and those whose income is derived chiefly from other undertakings, so as to take measures to ensure that they all have enough to live on. All commercial departments must make helping small merchants one of their most important tasks.

Some people have asked why the government hasn't organized all the small merchants into joint state-private or cooperative shops. As we all know, most small shops and peddlers sell in the residential areas. Their services represent a certain type of commerce that people will need for a long time to come. If all of these small merchants were organized into joint state-private or cooperative enterprises, it would be hard for city dwellers to buy goods. But if the state allows them to sell on their own and pays them a fixed salary, they will have no incentive to work. Also, since some of the small merchants now earn more than the employees of joint state-private or cooperative shops, if they are not willing to become partners in such shops, we should not force them to do so. The correct principle for helping these merchants, therefore, is that we should consider the city dwellers' need to buy goods and try to give the merchants an incentive by making sure that

they all earn a living. We think that for some time to come the method the government is now proposing will be the best way to apply this principle and to meet the small merchants' demand to be integrated into the socialist sector. When the small shopkeepers and widely scattered peddlers are organized into cooperative teams around wholesale centres, they will be closely connected with the socialist sector, selling on commission for the state stores and supply and marketing cooperatives. In this way, they will gradually become part of the socialist economy.

*2. Solving problems faced by small proprietors.*

In our country there are both big and small factories, shops and transport services. Obviously, the large capitalist enterprises have a very important place in industry and commerce, but there are far more small ones. Now both large and small enterprises have been converted to joint state-private ownership. This means that many small proprietors now work in joint enterprises. Before liberation, when there was capitalist competition, big enterprises drove small ones out of business. Consequently, small enterprises were often threatened with bankruptcy and their proprietors with unemployment. Their profits were unreliable, and many of them could not even make a reasonable living. After liberation, however, the government has assisted them so that they are no longer haunted by the threat of being squeezed out by the big entrepreneurs. Now that small enterprises have been converted into joint state-private enterprises, small proprietors can get a reasonable income, in addition to a fixed rate of interest. So long as they work hard, they will never have to worry about unemployment. That is why so many small proprietors in all parts of the country have welcomed joint state-private ownership. But their wages are now relatively low, and the fixed interest given to them does not amount to very much. Government departments concerned must therefore try to solve their problems.

Housing is a basic necessity for everyone. On February the State Council issued regulations on inventorying the assets of joint state-private enterprises.<sup>182</sup> This document emphasizes the need to respect the owner's wishes when making decisions about a building that serves not only as his shop or workshop but also as his home. Now we should specifically stipulate that only buildings that serve exclusively as shops, workshops or warehouses should be included in the assets of joint state-private enterprises, while all others should be returned to the owners as their homes. If we have made mistakes in this work, we must correct them. Also, many of the small proprietors' relatives used to help out in the family businesses; they should be allowed to do the same sort of work in the joint state-private enterprises or be offered other suitable jobs.

3. *Paying a fixed rate of interest to the private partners in joint state-private enterprises and enhancing cooperation between representatives of the state and private sectors.*

On February 8 of this year the State Council promulgated regulations governing the payment to private partners of a fixed amount of interest on the assets they had invested in joint state-private enterprises.<sup>183</sup> The regulations provided that the annual interest rate should range from 1 to 6 per cent and that it should be allowed to vary between different localities and trades, and even between different enterprises in the same trade. During the past five months many people have expressed the opinion that we should fix a uniform and generous rate. We now believe that it would be both correct and feasible to do so. We think it better to apply a uniform annual rate of interest of 5 per cent for all joint state-private enterprises, big or small, industrial or commercial, making a profit or operating at a loss, and irrespective of locality or trade. In certain enterprises, however, the annual rate should be allowed to exceed 5 per cent. Some joint enterprises that were set up earlier than others were authorized to distribute their profits according to the amount of assets invested. These should now use the fixed-interest system and the rate of 5 per cent. Others of them are already using the new system. Where the interest rate is higher than 5 per cent, it should remain so; where it is lower, it should be raised to 5 per cent. All joint enterprises and local government departments concerned should make preparations so that interest can be paid for the first time in July or August.

When a great many capitalist industrial and commercial enterprises have been converted into joint state-private enterprises throughout the country, cooperation between the representatives of public and private shareholders becomes an important problem. The success or failure of cooperation not only has a vital bearing on the enterprise's production or business but also determines our ability to persuade the capitalists and the senior managers who represent them to put their skills to use and to remould them into people who work for a living.

To solve this major problem, we should do the following things.

a) We must recognize that China's industrialists and businessmen possess certain expertise that can be used in managing enterprises. We should analyze their methods so as to rectify the irrational ones and make the best use of the rational ones in both joint state-private and state enterprises. We should preserve as the national legacy all useful production techniques and management know-how that have come from capitalist industry, commerce and handicrafts. It is our responsibility to do this, and it would be wrong to negate everything.

b) Most capitalist industrial and commercial enterprises were not converted to joint state-private ownership until January of this year, so naturally the people representing the state are still inexperienced in cooperating with capitalists and their representatives. Local Party and government organizations should help the industrial and commercial departments review their experience in this respect so as to draw up some rules and regulations for cooperation between the representatives of public and private shareholders. Also, the managerial personnel representing both sides should familiarize themselves with the policies, guidelines and regulations relating to production and business operations laid down by the leading industrial and commercial departments. Local authorities should convene separate meetings of the representatives of public and of private shareholders, to solicit their opinions, to educate them and to help them solve problems arising from state-private relations. At times representatives of both sides should be called together to discuss problems. At regular intervals responsible officials in charge of industrial and commercial departments at the central, provincial and municipal levels should hold talks with members of the local federations of industry and commerce,<sup>87</sup> of the trade councils<sup>86</sup> and of the China Democratic National Construction Association<sup>180</sup> to exchange views on problems concerning state-private relations.

c) To improve state-private relations, we must explain to workers and other employees that it is in the interest of the working class and the entire people to unite with the capitalists and their representatives, to put their expertise to best use and to help them transform themselves into workers. At the same time, we must encourage the capitalists and their representatives to cooperate with the representatives of the public shareholders and to unite with the workers and other employees. If the workers and other employees have grievances about the past conduct of the capitalists and their representatives, the latter, on appropriate occasions, should offer to make self-criticisms. If necessary, the personnel representing the public shareholders should help the capitalists and their representatives explain past actions to the workers, so that the entire staff of the enterprise, including both workers and public and private managerial personnel, can pursue their production or business operations in solidarity. We must recognize that it will take time to achieve such solidarity. In the meantime, we can educate all of them and help the capitalists and their representatives transform themselves into workers. We believe that, with concerted efforts, solidarity will finally become a reality in the joint state-private enterprises.

4. *Giving more wages and welfare benefits to the workers and other employees and to the capitalists and their representatives in the joint state-private*

*enterprises.*

Many workers and other employees in joint state-private enterprises have written to government departments complaining that the difference between the highest and the lowest wages in their enterprises is too great and that in general their wages are much lower than those paid in state enterprises. They ask that the government readjust their pay. According to preliminary statistics, workers in some of the joint enterprises are paid more than those in state enterprises in the same industry or trade, while others—the ones in small factories and shops—are indeed paid less. As we all know, in private enterprises the wage scales and material benefits used to differ greatly. At present we think it impossible to institute a uniform wage scale in the joint enterprises and to make it the same as in state enterprises. Seven years have passed since liberation, and we have not even instituted a uniform wage system in the state enterprises yet. We should recognize that it will take several years to gradually unify wages in the joint state-private enterprises. Of course, one enterprise merges with another and there is a great gap in the wages paid to workers doing the same job, we should do all we can to equalize their pay. The guiding principle should be that if wages in a joint state-private enterprise are higher than those in the state enterprises in the locality, they should not be reduced, but if they are lower, they should be gradually raised as the volume of production or business allows. In the second half of this year both central and local government departments should put forward plans for adjustment of wages, to be carried out after they have been approved by the central government.

Many private enterprises have poor safety and sanitation facilities. When they have been converted into joint state-private enterprises, they should update those facilities.

We should encourage members of both the handicraft producers' cooperatives and the transport cooperatives to work hard and improve management, to make sure that they earn more than they did before they joined the cooperatives. If some of these cooperatives set aside a large portion of profit for accumulation funds, with the result that members' wages are lower than before they joined, such funds should be reduced to raise wages. The same applies to the cooperative shops.

We should also increase the salaries of the capitalists and their representatives in the joint state-private enterprises, just as we will the wages of the workers and other employees.

The capitalists and their representatives are entitled to medical care. Those working in enterprises with a capital of less than ¥2,000 should receive the same medical care and pay during sick leaves as workers and other

employees do. But if those working in enterprises with a capital of more than ¥2,000 are experiencing financial difficulty, this principle should apply to them too.

Many industrialists and merchants have proposed that we raise funds through various channels to provide financial assistance to those of them who may be having a hard time. We support this proposal. We hope that the All-China Federation of Industry and Commerce will draw up a plan for raising funds, and then the government will help carry it out.

##### *5. Reorganizing enterprises.*

At first, the government planned to accomplish the gradual socialist transformation of private industry and commerce throughout the country in two years, one industry or trade at a time. Last January, however, during the upsurge of the socialist transformation the government decided to change its plan and approved the simultaneous socialist transformation of all private industry, commerce, handicrafts and transportation services. The circumstances at the time made this change necessary, but because it was so rapid, many government departments in various areas did not have time to acquire the necessary experience for converting private enterprises into joint state-private enterprises. During the days when people were beating drums and gongs in celebration, therefore, in a great number of localities many factories, handicraft workshops and shops were merged into large enterprises, whether it was appropriate or not. Some of these enterprises that are responsible for their own profits and losses turn out to be too large to operate efficiently under unified management. Fortunately, the decision issued by the State Council on February 8 has helped curb this trend of indiscriminate amalgamation.

Another problem relating to the socialist transformation is that so far as the supply and marketing of goods are concerned, we have broken off the traditional cooperative relations between industry and commerce. Different government departments were responsible for conducting the socialist transformation of private industry, commerce, handicrafts and transportation services. That was a necessary and reasonable division of responsibility, but the problem was that these departments did not cooperate closely in the work. At the same time, some enterprises were not placed under the administration of the appropriate departments. For example, when the socialist transformation was proceeding by industry, the same department planned production for both big and small enterprises in the same industry, and they cooperated closely. Now, however, enterprises that employ four or more persons are administered by the departments in charge of industry, while enterprises in the same line of production but employing three persons

or less are under the departments in charge of handicrafts. Moreover, when the departments in charge of industry are planning production, they don't coordinate their work with that of the departments in charge of handicrafts. So the former cooperative relations between the various enterprises no longer exist.

Also, in the past the stores selling clothes, hats and shoes usually had their own workshops that manufactured the goods they sold. During the socialist transformation, these stores came under the administration of the departments in charge of commerce, while their affiliated workshops came under the departments in charge of handicrafts. Later on, during the cooperative transformation of handicrafts, many of these workshops were merged into cooperatives and consequently stopped producing goods for the stores. There are many cases of this sort, and the problems in the relations between handicraft industry and other sectors are legion. Now government departments are taking measures to solve these problems.

We think that in reorganizing enterprises we should proceed carefully and with good preparation. The State Council's decision on maintaining the old management system in joint state-private enterprises for six months has helped put a stop to disorder and enabled the government departments to devote some time to studying possible methods and past experience in this field. But this does not mean that at the end of six months all enterprises will be ready to be reorganized. We cannot set a time limit for this work. We must be well prepared and reorganize all enterprises gradually, in such a way as to facilitate production. The present task for government departments in the localities is to draw up a plan for those enterprises that need to be reorganized and to prepare to separate those enterprises that have been wrongly merged.

We should bear in mind that when we reorganize a private enterprise into a joint state-private enterprise and assign the capitalists and their representatives who used to work there to new jobs, it is not the people representing public shareholders who know most about the enterprise and its managerial personnel but the workers and the other former staff members. That is why they are the ones who can make the best proposals for the reorganization of the enterprise and for the reassignment of its personnel. Before we change production plans or the assignments of the capitalists and their representatives, we should consult with members of the local federation of industry and commerce and the local trade council, and even with the capitalists and their representatives themselves. If, in reorganizing an enterprise, we have not solicited the opinions of the capitalists and their representatives, and if they object to our change in the production plan or our

Han Guang's area<sup>330</sup> mainly for the purpose of reinforcing southern Liaoning. Resulting increases in personnel from these six endeavours, however, will not be immediate. In order to recuperate we must immediately recruit personnel. Therefore, can 3,000 persons be transferred in March from local county brigades in northern Manchuria to supplement our forces?

4. If we can sustain and take advantage of southern Manchuria's favourable conditions and positions and with the help of a few thousand recruits from northern Manchuria, we can check the northward advance of the enemy. I think this is the best we can accomplish.

5. It would seem unreasonable for one region to request recruits or grain from another region, and this cannot last long. But, believing that a favourable situation in southern Manchuria is important for protecting northern Manchuria, and considering that objective conditions exist for improving the situation in southern Manchuria. Thus I repeat my request for aid. I am asking you to reconsider assisting southern Manchuria with recruits.

6. Such favourable conditions as we now perceive in southern Manchuria cannot be found in any other region of Manchuria. Aside from this temporary need for aid in the form of recruits and grain, I predict that southern Manchuria will be self-sufficient.

(Telegram to Gao Gang on February 8, 1947.)

## VI

1. The Military Commission's telegram of the 10th has been received.
2. On December 18, the entire 4th Column penetrated the enemy's rear area. Later, because of our offensives in northern Manchuria, the 91st division of the enemy's 71st army was dispatched north and six regiments of the 4th Column's main forces returned to the Changbai Mountains in mid-January to join the 3rd Column in offensives against the 195th and 2nd divisions of the 52nd army in the Tonghua<sup>331</sup> and Ji'an regions. Most of the enemy escaped; only five companies of the 195th division were wiped out. Thereafter, four regiments of the 4th Column's main forces and the entire 3rd Column were concentrated. The entire 11th division of the 4th Column remained west of the Hunjiang River and east of the Andong-Fengtian Railway, pinning down the enemy and coordinating with and supporting our local armed forces. The headquarters of the 12th Division led its main force, the 34th Regiment to join the Liaonan Independent Division and they have

withdrawn to Guandongzhou<sup>332</sup> for rest and reorganization. They are pinning down four battalions of the 22nd division of the enemy's new sixth army, five battalions of the 14th division, two regiments of the 184th division of the 60th army and two divisions of the provincial defence forces. Because the enemy's rear area is extensive and has good roads, many of our local armed forces have been crushed by enemy attacks. To disperse enemy forces, our entire 11th Division and part of the 12th Division were dispersed in the enemy rear, which is beneficial to our overall situation.

3. The 91st division of the enemy's 71st army has returned to Meihekou and is preparing to launch a third offensive on the Changbai Mountains. We are preparing to smash this offensive. Enemy forces stationed now in eastern Liaoning consist of the entire new sixth army and 52nd army, the 91st division of the 71st army, the entire 21st division of the 60th army, two regiments of the 184th division of the 60th army and several divisions of provincial defence forces.

4. We will take advantage of the period before the Songhua River thaws to annihilate the enemy, to improve the situation in southern Manchuria and to prepare for the difficulties we will encounter when the Songhua River thaws. At that time, Northern Manchuria will be unable to send reinforcements and the enemy will concentrate its forces to tackle southern Manchuria alone.

5. The present population of the four counties in the Changbai Mountains region is only 220,000; because we cannot yet expect recruits from the enemy rear for the time being, our greatest difficulty is lack of manpower. We are attempting to solve this problem ourselves while at the same time seeking help from northern Manchuria. We maintain that although both extensive guerrilla warfare and necessary positional warfare are currently being employed in southern Manchuria, mobile warfare is still our principal tactic.

6. Jinguang<sup>333</sup> is still in command at the front.

(Return telegram sent by Chen Yun and Xiao Hua to the Central Military Commission of the CPC, the Northeast Bureau and Lin Biao on February 11, 1947.)

## VII

The three telegrams, two on the fifth at nine o'clock and 12 o'clock

(saying that the enemy had placed water mines) and one on the sixth (reporting that the enemy's 184th division has been transferred to Zhengjiatun<sup>334</sup> and that the 93rd army would probably be transferred to the Northeast), were all received. Taking southern Manchuria and the overall situation in the Northeast into consideration, we offer the following opinions:

1. We anticipate that after the 93rd army arrives, the enemy will not launch offensives in the south and the north at the same time (their forces are still insufficient), nor will they take the offensive in the north while engaging in defence in the south (because our 3rd and 4th Columns pose a serious threat for the enemy). We expect that the enemy will attack first in the south and then the north in an attempt to destroy us one by one.

2. If the main forces in northern Manchuria do not come to our aid when the enemy attacks the south and then the north, we anticipate that southern Manchuria will be crushed and northern Manchuria will be vulnerable soon thereafter.

3. After our main forces in northern Manchuria are moved south, it will still be possible for the enemy to launch an offensive in the north while defending in the south, but by then our forces in southern Manchuria will be very large and we would quite possibly be able to stop any advance northward. In case we should fail to do so and lose the city of Harbin,<sup>335</sup> that would still be better than having the enemy wipe out our forces in the south and then move north to capture Harbin because we would still have bases in the north and the south and the whole Northeast could carry on a protracted struggle.

4. Even after our main forces in northern Manchuria have moved southward, the danger remains that southern Manchuria could be crushed if the enemy concentrates its forces. But an even more likely possibility is that, in utilizing the main forces that are transferred south plus the 3rd and 4th Columns, we can wipe out the enemy piecemeal by taking advantage of the mountain areas of southern Manchuria, thus keeping southern Manchuria in our hands and delaying the enemy's northward advance, and even holding northern Manchuria. If we can annihilate the new first army and two divisions of the new sixth army, things will go well in the Northeast. Even if more diehard enemy forces arrive from areas south of the Great Wall, their combat effectiveness will be relatively poor, so this will not represent a big problem for us.

5. If our forces in southern Manchuria are crushed despite of our best efforts, we could leave some forces in the enemy rear in southern Manchuria and transfer a portion of our main forces to eastern and northern Manchuria

so that all of our forces will not be pinned down in the enemy rear in southern Manchuria.

6. Our main forces in northern Manchuria must seize Huadian and Heishizhen in their move southward. It would be better still if they could occupy Panshi and other places. However, it is likely that they will not be able to take Huadian and Panshi and will have to join the 3rd and 4th Columns in Jinchuan, Huinan and Liuhe. Even so, the possibility still exists that our southern Manchuria forces can wipe out the enemy and hold and expand our base areas.

7. We ask you to decide in light of the overall situation how many divisions in northern Manchuria should be transferred south. Please brief us on the route they will take once this southward move is decided upon so our operations can support them.

8. After our main forces have moved south, we will still have to rely on northern Manchuria for help with recruits and money.

9. Water in the Xiaofengman reservoir is being released. Will our forces be able to cross the river in the lower reaches? If they are forced to cross in the upper reaches of Fengman, they should strive to get across before the ice thaws.

Please consider the above opinions.

(Telegram sent by Xiao Jinguang,  
Chen Yun and Xiao Hua to Lin Biao  
on March 7, 1947.)

## VIII

Your telegram of the 28th has been received.

1. Xiao and Cheng<sup>336</sup> have returned to Linjiang to discuss deployment. We believe that the enemy poses a serious immediate threat<sup>337</sup> in southern Manchuria, which will become even more serious in the days to come. Although the enemy forces are large, its present main force consists of only two regiments of the 22nd division and four regiments of the 13th army. All other divisions are either weak or not at full strength. If we can annihilate the bulk of the 22nd and 89th divisions, it will be possible to smash future enemy attacks. We have concentrated five main divisions of the two columns for mobile warfare. We have decided to strive to maintain the whole Changbai Mountains region even at the cost of two-thirds to three-quarters of the 3rd and the 4th Columns. From an overall perspective, this decision

was quite necessary. The enemy is now and will continue to be numerous and closely spaced. Therefore, we are determined to fight a few fierce, tough and risky battles by persisting in mobile warfare. Without this determination, we would be indecisive as to what battles to fight, and consequently, our troops would undoubtedly become worn out and we would lose the mountain bastions, which would be damaging to the overall situation. Experience shows that when we are afraid of losses, the losses become amplified. From February 5 until now, our troops have fought eight battles and captured about 10,000 enemy troops; at the same time, our main forces suffered 3,000 casualties.

2. For northern Manchuria we suggest:

(1) For the moment there is no need to send troops south because in the face of multiple blockades and frequent pursuit in enemy areas the cadres will only become demoralized (based on our experience in the enemy rear in eastern Liaoning). If we engage in battles, we would not be able to take care of the wounded, in which case it is most likely that even with losses we would fail to accomplish our task, or we would accomplish our task by fighting the enemy in a state of fatigue. It will be more advantageous if these troops join the main forces in northern Manchuria in persistent and hard fighting northwest of Changchun.

(2) Northern Manchuria can send a main division to eastern Manchuria to reinforce Huadian and pursue active operations against the enemy, train our eastern Manchurian troops in combat style and maintain our transportation links with eastern Manchuria. This division can be transferred to southern Manchuria if necessary.

(3) Our main forces in northern Manchuria can launch offensives ahead of schedule before the enemy sends more troops to southern Manchuria.

(4) Your decision to provide southern Manchuria with additional recruits has strengthened our determination. We hope that large numbers will arrive quickly. We need the first group to come down as soon as possible. In addition, we ask you to send two ready-formed supplementary regiments. In seven days we will dispatch to northern Manchuria cadres at and above the level of squad leader to lead three supplementary regiments of new soldiers south. With your support in manpower, we will fight courageously.

(Telegram sent by Xiao Jinguang,  
Chen Yun, Xiao Hua and Cheng Shicai  
to Lin Biao, Peng Zhen and Gao Gang  
on March 31, 1947.)

## IX

Through the combined efforts of our main forces in eastern Liaoning and all of our Party organizations and troops behind enemy lines, the three offensives launched by our main forces in crossing the Songhua River from northern Manchuria,<sup>338</sup> we smashed the three attacks mounted by the enemy on Linjiang over the past three months;<sup>339</sup> nearly 10,000 enemy troops were captured, 20 enemy battalions (excluding those wiped out behind enemy lines) were annihilated and five towns were recovered.<sup>340</sup> These victories, however, should not throw us off guard. The enemy still plans to concentrate their forces in an attempt to destroy southern Manchuria first when the Songhua River begins to thaw, making it more difficult for our main forces in northern Manchuria to support southern Manchuria. The enemy has already transferred five divisions of reinforcements from Rehe, Beiping and Tianjin to the Northeast (most or all of which are likely to engage in offensives against southern Manchuria), and they have begun their fourth offensive on the Changbai Mountains region. Having learned from their first three failures, they have strengthened their forces and better organized their offensive. Nevertheless, our positions in southern Manchuria must be maintained. At present, conditions have improved in eastern Liaoning. Although enemy forces are large, their main forces consists of only the 22nd and 89th divisions. Therefore, the enemy offensive can and must be smashed.

The current tasks for all Party organizations in eastern Liaoning are as follows:

1. High-ranking cadres in our armed forces should acquire a clear understanding of the importance to the whole Northeast and to the whole country of smashing enemy offensives and maintaining southern Manchuria. We must be determined to engage in fierce and difficult battles at any cost to wipe out enemy troops and smash enemy offensives. Losses are inevitable in continuous fighting, but achieving overall victory at the cost of local interests is a necessary precondition to ensure the recovery and development of each locality.

2. Our troops in enemy rear areas should maintain a spirit of fearing no hardship, conduct active operations and strictly carry out the task of supporting our operations at the front. They should mobilize the peasants whenever and wherever they can and protect the peasants engaged in spring plowing on the land they received in the land reform. Meanwhile, supplies should be prepared in advance for any break in communications or even more difficult situations which may arise during the fighting. This also calls for a spirit of subordinating local interests to overall interests.

3. All comrades working in the localities as well as in logistical and government organs must show even greater initiative and unlimited willingness to improve their efforts so as to ensure victory on the battle front.

4. Our struggle will have the complete cooperation of our forces throughout the Northeast in addition to their aid in manpower and supplies, but we must think entirely in terms of self-reliance in order to avoid dependence or lack of initiative.

(General order from the Eastern Liaoning  
Sub-bureau of the Central Committee of the CPC  
on mobilizing all Party members to smash the fourth  
enemy offensive on March 31, 1947.)

## X

The enemy has now concentrated fairly large forces and has begun to attack southern Manchuria. We must demonstrate strong determination to smash enemy attacks. We should not waver in the slightest in carrying on the struggle in southern Manchuria. We should not recoil or show fear before the enemy. Since the loss of Andong, southern Manchuria has resolutely smashed three enemy offensives against the Changbai Mountains region, wiping out more than two divisions of enemy forces, capturing 10,000 enemy troops and recovering five county towns; this has encouraged the masses and sustained our struggle behind enemy lines. True, this turnabout and development of the situation has come about through northern Manchuria sending troops south three times which created conditions favourable for victory in southern Manchuria, but it is also due in part to the efforts and resolute struggle of all the Party organizations, the government, the army units and the people in southern Manchuria. Our main forces, which have struck at the enemy with deadly blows and consequently changed the relative strength of the two sides as well as the situation in southern Manchuria, played a vital role. Experience shows that as long as we carry out resolute struggle and have unfaltering determination and confidence, we will be able to smash enemy offensives, change the balance of forces, improve the situation and hold southern Manchuria. Today, conditions are even more favourable than before for shattering enemy offensives. After being barraged by our continuous attacks on various battlefields in the Northeast, the enemy's combat effectiveness has decreased while our strength has increased with each

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battle. Having suffered devastation at the hands of the Kuomintang, the masses have come to understand and sympathize with us. Their cooperation in eastern, western and northern Manchuria has not slackened despite the thawing of the Songhua River. At present, the main enemy forces which were transferred to reinforce southern Manchuria are not large, and most of these have been defeated. Moreover, the morale of the Yunnan troops is low. Enemy troop organization is in disorder and enemy reserves are more numerous than before but poorer in quality. If one to two divisions can be annihilated in the near future, the situation in southern Manchuria will undergo a fundamental change. The problem facing us at the moment is how to raise our morale and muster the staunch determination to fight major difficult and fierce battles. The key to victory in war is to try to gain the initiative, weaken the enemy and seize any favourable opportunities, even minor ones, to assemble superior forces and destroy the enemy forces one by one. If we adopt a passive faltering attitude which stifles any sort of action and wait for opportunities that suit us, then the more we draw back, the closer the enemy will bear down on us, forcing us to take the defensive while they maintain the offensive. Proceeding that way, we will never be able to create favourable conditions or fight decisive battles. The outcome of this kind of passivity will certainly be defeat. In fighting major difficult and fierce battles, we will most certainly suffer casualties. To win and wipe out the enemy, we must be determined to make sacrifices. Our strength cannot be sustained unless we pay a price in exchange for a higher price to be paid by the enemy. In other words, only by making some sacrifices in return for victory can we survive and grow. We should promote revolutionary heroism and display courage in the face of a numerically superior enemy, striking the enemy hard with an active, responsible, hard-working, resolute, courageous and indomitable spirit. These are the most noble qualities of our revolutionary soldiers. Such officers and men deserve the respect, love and admiration of the entire Party and the people of the whole country. War is the most arduous, the cruelest and the most serious of struggles. All officers and men must resolutely carry out orders, strive to fulfill their tasks, strictly observe rules of discipline and take good care of the manpower and material in the base areas. The commanders must be well informed about the enemy and the terrain and must carefully organize their forces, paying close attention to cooperation, coordination and communication. They must also avoid a rash style of fighting and take good care of the soldiers. In order to improve and coordinate the operations of the forces at the front, it has been decided that Zeng and

Han<sup>341</sup> will form a provisional headquarters at the front. Han arrived at the 10th Division on the 4th and took up joint command with Zeng.

(Telegram sent by Xiao Jinguang, Chen Yun, Xiao Hua, Cheng Shicai, Luo Shunchu, Wu Kehua, Mo Wenhua and Tang Kai to the commanders of the various corps and to Lin Biao, Peng Zhen and Gao Gang on March 31, 1947.)

## XI

We are now dispatching cadres for three supplementary regiments to receive the new recruits. Your support has greatly encouraged us. Of course, even if there were no new recruits we would make repeated efforts to hold the Changbai Mountains region. These new recruits have improved our favourable situation.

It can be said that we have solved one problem, that is, how to inspire an unequivocal determination to persist in fighting in southern Manchuria—not just in southern Manchuria where we are carrying out guerrilla warfare, but in the entire Changbai Mountains region. Only by so doing will we be able to deter the enemy very effectively in northern Manchuria. Since this question has been settled, we now dare to exclaim bravely and responsibly that even if all of our present forces were exhausted and southern Manchuria still could not be held, we would continue fighting anyway, for this is important to the entire Northeast and to the country as a whole. We have dismissed the idea of retreating to conserve our current strength, which would lead to the loss of southern Manchuria and all of the Northeast. If we act shortsightedly, we will do harm both to ourselves and to the overall situation. [Xiao] Jinguang's greatest achievement in his command at the front has been to resolve the military cadres' fear of casualties and their tendency to conserve strength. Having solved this problem, our tactics have become more flexible. In southern Manchuria today, we now understand the meaning of the saying "as long as the green mountains remain, there will be no shortage of firewood." This refers not only to the strength of the armed forces, rather, it refers mainly to maintaining at any cost the entire Changbai Mountains region.

We do not dare to say that all our problems in southern Manchuria have been solved, but we can say that this is the case for most of them.

Now, I should like to raise for your consideration a different issue. I have thought this matter over, and I hope that you will also give it careful consideration.

Judging from our experience in the entire Northeast and in the country as a whole, we know that we are outnumbered by the enemy (less so in the Northeast). However, their current military strength is still inadequate. Therefore they had no choice but to adopt a plan calling for “determining priorities and assembling large forces to destroy us one by one.” The enemy has benefited from this strategy somewhat in northern Jiangsu and southern Shandong because the enemy has two advantages over us—more soldiers and good transportation.

Our forces under enemy attack are in difficulty. I have no idea what it is like in northern Jiangsu or southern Shandong, but taking southern Manchuria as an example, the primary difficulty is the sparse population in the Changbai Mountains region, which means paucity of grain, housing, manpower, transportation and facilities for caring for wounded soldiers. As far as local conditions are concerned, this region is suitable only for guerrilla warfare, but from the perspective of the overall situation, we need to conduct mobile warfare. In regions like this, without support in manpower and necessary supplies from other regions, mobile warfare is out of the question. The second difficulty is the continuous fighting. For example, when northern Manchuria starts its offensives, we cannot and must not rest, since we have to impede the enemy in order to assist northern Manchuria in annihilating them. Only by taking every opportunity to attack the enemy can we improve our positions and get ready for further enemy attacks. If northern Manchuria ceases its offensives, the enemy will immediately rush south to attack us, forcing us to fight when we need to rest, and so the fighting will drag on. We have had no chance to rest and reorganize over the last 20 to 30 days. If this situation is not understood by the rest of Manchuria, their aid for us may be slow in arriving, which will be very disadvantageous for southern Manchuria.

In summary, eastern, western and northern Manchuria must understand our situation in southern Manchuria and afford us sufficient and timely assistance in military matters, manpower and necessary supplies.

After considering this matter, I have come to the conclusion that those under enemy attack, such as in southern Manchuria, must overcome the shortsighted Rightist tendency to conserve strength and bow before difficulties. Generally speaking, if this problem is recognized, it will be easy to overcome. Communists are revolutionary by nature; furthermore, under direct enemy suppression this conservative tendency is not likely to pass

unnoticed, so it can be easily overcome through education. On the other hand, the cadres who are in a more advantageous situation where the enemy is on the defensive are not likely to be greatly aware of the difficulties confronting those under enemy attack or of the vital significance that their successes and failures have for other battle fronts. Since the enemy is not attacking them for the moment, these cadres tend to be shortsighted and relax out of satisfaction with the status quo. This tendency is easily overlooked and therefore difficult to quickly and completely overcome. This tendency could slow efforts to hinder enemy actions and cause us to overlook possibilities for coordinating manpower and supplies. I would say there are two factors behind this tendency. 1. Having not been directly attacked by the enemy, these cadres are unlikely to take into consideration both local and overall as well as immediate and long-term interests. 2. During the eight-year anti-Japanese war and the ten-year civil war, our experiences were different and we had neither the same possibilities nor the same needs as we do now. During the anti-Japanese war, we had the enemy on the defensive in several stages (after the Pacific War<sup>342</sup> began, they were on the defensive throughout China), and there was not much need for coordination among our forces. In today's civil war, the enemy is on the offensive and trying their best to concentrate large forces to destroy us one by one. During the ten-year civil war, it was not possible for various strategic regions to coordinate their actions and they were not accustomed to such a practice. In today's civil war, however, coordination has become an absolute necessity, and any weakness, carelessness or delay in this regard will undoubtedly hurt us.

The strategy of the Central Committee and the Northeast Bureau for countering the enemy's policy of destroying us one by one is to coordinate our operations in order to destroy the enemy one by one. This strategy has been decided on and is being implemented. But I believe we must overcome the obstacles to accomplishing this. That is, during enemy attacks, any Rightist tendencies must be eliminated, and in supporting a battlefield the tendency not to provide active and timely support must also be corrected. I propose that the Northeast Bureau hold a meeting during which relevant personnel from various battlefields can exchange opinions, those under enemy attack can make known what assistance they require and the supporting side can discuss to what extent they can render aid. The two sides respectively can be assigned different tasks pertaining to persistence and support in order to increase our efficiency in fighting. I believe this is more than just a temporary measure. Even if Harbin is lost and northern Manchuria is divided, the enemy's strategy remains the same—to destroy us one by one. It is necessary for us to be mentally prepared in advance and make

realistic calculations of the possibilities of coordination in military operations among various regions in Manchuria and of the extent to which manpower and material support can be provided. Please consider the need to call such a meeting.

(Excerpt from Chen Yun's letter  
of April 2, 1947 to Gao Gang.)

## HOW TO MAKE FEWER MISTAKES

*February 7, 1947*

Can we make fewer mistakes? This is a good question. If I, a member of the Central Committee, act incorrectly, this can have many consequences.

How can we make fewer mistakes and avoid grievous ones? When I was in Yan'an, I attributed my errors to inexperience. Chairman Mao explained to me that I was not inexperienced, but that my method of thinking was incorrect. He suggested that I study philosophy. Some time later he reiterated that my errors originated in my way of thinking, citing Zhang Guotao<sup>143</sup> as an example of a man who was not inexperienced. In discussing this matter with me a third time, Chairman Mao again insisted that my mistakes were due to my way of thinking.

Later I read the works of Chairman Mao written from the Jinggang Mountain period to the period in Yan'an, studied his way of solving problems and tried to discover the root of my errors. I drew the conclusion that I had strayed from actual situations at a given time and in a given place. Faulty results always follow from mistaken actions, and mistaken actions always derive from faulty understanding. Action is governed by understanding, and action is the product of understanding. For example, how was it that Chiang Kai-shek could proclaim he would eliminate us within three to five months? He made this incorrect judgement because he underestimated the close ties between our troops and the masses, and he exaggerated the power of his sophisticated weapons while ignoring his troops' low morale and serious divorce from the masses. The failure of the enemy's 195th Division was due to the mistaken ideas of Zhao Gongwu<sup>343</sup> and Chen Linda,<sup>344</sup> who thought that our troops were scattered and could not be concentrated. Presently we are operating behind enemy lines and some comrades get a bit frightened because they overestimate the enemy's strength, as if taking a skullcap for Mao'er Hill.<sup>345</sup> So I think that in working on any task, we should

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Excerpt from a speech delivered at the meeting held by the Liaodong Sub-bureau of the CPC Central Committee.

expend 99 percent of our energy on ascertaining actual conditions. If we clearly understand the situation, we will be able to make correct decisions. In Yan'an, I worked at the Financial and Economic Office<sup>242</sup> after leaving Zaoyuan.<sup>346</sup> Whenever I was to deliver a speech, I would always busy myself in gathering information on relevant matters up to the last night. Do not make hasty decisions before understanding a situation.

Seeking truth from facts can be easy or it can be difficult. In seeking truth from facts, we try to discover how to deal with a specific situation through making concrete analyses of actual conditions. The reason why a person will err is that he makes a hasty decision before he understands the situation; his subjective view is divorced from the real situation. Of course, it was not the case that we knew nothing at all about actual conditions when we made mistakes in the past. But we took a one-sided view and not a comprehensive one, mistaking a part for the whole. A one-sided viewpoint cannot reflect reality. This is what causes the difficulty in seeking truth from facts. I have been involved with the revolution for over 20 years and my errors were due to one-sidedness of understanding.

To make fewer mistakes we should avoid one-sidedness in our understanding. I have concluded that there are three ways to do so: one is exchange, two is comparison and three is reconsideration.

Exchange means to exchange positive and negative viewpoints in order to gain a comprehensive understanding of things. We should especially elicit opposing views, which can make up for any deficiency in our understanding of things. Even if contrary opinions are incorrect, they may reflect some aspect of things or include some points drawn from experience. Because of this, we need to analyse opposing viewpoints and draw something useful from these. Chen Duxiu,<sup>186</sup> Li Lisan<sup>347</sup> and Wang Ming<sup>222</sup> made mistakes not because they were foolish or crazy, but mainly because they paid attention to one aspect of things and ignored other aspects. The revolutionary "high tide" of 1930 could be said to be "high" when contrasted with the low ebb following the failure of the Great Revolution of 1927, but it was not "higher" than the situation before it. At that time Red Army forces were stronger than they had been, but not strong enough to defeat Chiang Kai-shek's troops. The January 28th Incident<sup>348</sup> in 1932 gave rise to a high tide in the nationwide anti-Chiang Kai-shek movement, but nationally, a revolutionary high tide had not yet appeared. The faulty conclusion at the Fourth Plenary Session of the Sixth CPC Central Committee<sup>349</sup> and the Provisional Central Committee's incorrect Resolution on Winning Victory First in One or More Provinces<sup>350</sup> were based on that erroneous appraisal of the situation at the time. We should not judge that the comrades involved

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misread the situation completely, but they did exaggerate one aspect of things. This demonstrates that we should elicit contrasting opinions. If any of these are correct, they can make up for the deficiency in our understanding of things; if they are fallacious, we should refute them. The more fallacious they are, the more thoroughly we should refute them. Refutation requires that we derive antitheses. This process will deepen our understanding. Correct ideas generally result from the systematic refutation of erroneous ones. Erroneous bourgeois and pseudo-Marxist-Leninist ideas actually assisted in the establishment of Chairman Mao's correct Marxist-Leninist theory. In writing "On Protracted War," Chairman Mao first collected arguments for the theories of national subjugation and quick victory, and through analysis and refutation he was able to draw the correct conclusion that the anti-Japanese war would be a protracted war. In "Problems of Strategy in China's Revolutionary War," Chairman Mao first criticized the erroneous ideas that the problems of strategy in China's revolutionary war could be solved by studying war in general, by learning from the experience of the Russian revolutionary war, and by copying the methods of the Northern Expedition. He then put forth the correct view that we must study the character, laws, strategies and tactics appropriate to a Chinese revolutionary war, especially those of the ten-year Agrarian Revolutionary War. In "Talks at the Yan'an Forum on Literature and Art," Chairman Mao first refuted the viewpoints that literature and art are "supra-class" endeavours and that the position of writers and artists is of little importance, and then he expounded the basic principle that literature and art must serve the people. So in exchanging views, especially with those who disagree with us or with representatives of other classes, first we should be clear that the aim of exchange is to gain a comprehensive understanding of things. In trying to achieve this, we should put ourselves in the other person's position and consider whether or not their opinions are sound. Whatever ideas are sensible and realistic should be accepted. Some comrades among us are often unwilling to discuss or exchange ideas with those who hold contrary opinions. This is not helpful.

To exchange views is to gain a comprehensive understanding of things, and to compare is to judge the nature of things more accurately. Without comparison we cannot be clear about the causes and nature or essence of matters. A touchstone is used when testing the purity of gold, and there is also a standard which is used as a reference in testing blood. If we had compared the revolutionary high tide of 1932 with the aftermath of the failure of the Great Revolution in 1927 and with the three armed uprisings in Shanghai,<sup>351</sup> we would have been able to correctly evaluate this high tide of 1932 and then work out appropriate strategies; we would not have adopted

know.”

Fourth, they were skilled at transporting and storing goods. For example, when pigs were transported by private merchants, the live delivery rate was very high, because they knew when to give the animals water, and some of them even knew how to treat a sick pig. The state food companies also have some pig-raising experts, but not nearly so many as the private enterprises had. When we purchase horses from Inner Mongolia, 4 per cent of them die in transit, while the private merchants lost only 1.5 per cent. When putting goods in storage, our warehousemen usually stock goods randomly, but the workmen in the private enterprises knew how to keep their goods in order.

Fifth, they kept careful and detailed accounts.

Can we deny that the capitalists have many special skills? Of course not.

If we bring capitalists in to work in our commercial departments, there are bound to be some negative consequences. They are certain to bring with them their habits of bourgeois individualism, such as attacking others for their own promotion. They will also bring with them capitalist management principles. Any private businessman, if given the opportunity, will engage in speculation and profiteering and try to make as much profit as possible. But if they are not given such opportunities, they are also capable of doing business honestly. These are the two sides to their nature. If we employ them in our commercial work, both sides will come out. They are also prone to graft and embezzlement, but since this problem has appeared even among the employees of our state-owned enterprises, it would not be surprising if it occurred among the former capitalists. Of course, since we instituted joint state-private ownership, they can no longer engage in these practices as boldly as before.

Are there also some capitalists who are incompetent? Naturally. Some of them are good for nothings, who used to depend for their living on the men with skullcaps and water pipes. But they are a minority. There are also some capitalists with dubious political backgrounds and no special business skills. We must take care of these people, or else they will have to rely on public assistance. We must also employ those relatives of capitalists who are able to work. Some say it is difficult to find jobs for such people, but even jobs like sweeping or cooking will do.

The attitude of the capitalists is now quite clear. They realize that it is better for them to accept peaceful transformation than to resist it. That is why they go around beating drums and gongs, setting off firecrackers and shouting, “Long live Chairman Mao!” They are afraid that if they don’t, they will find themselves unemployed. Of course, there are some capitalists

who still oppose us or who only pay lip service to our policies, but most of them are willing to go along with peaceful transformation.

Since the institution of joint ownership, even the more recalcitrant capitalists have become much more amenable. People are of two opinions as to whether the capitalists are an asset or a burden to us. Some comrades believe we should take over the factories and shops but should not necessarily employ the capitalists who originally owned them. Other comrades consider the capitalists as a valuable asset that we should make full use of. Capitalists have special skills and are indeed an asset. Of all the classes in China — the feudal landlords, the bureaucrat-capitalists, the national bourgeoisie, the peasantry and the workers — it is the national bourgeoisie that is most educated. If all the bourgeois engineers had resigned after liberation, we would have gone through a long period of chaos. In dealing with the bourgeoisie we are following a policy of peaceful transformation, because they are knowledgeable and can play a useful role in developing production. That is better than simply dismissing them all.

Most of our production used to be done by hand, but now we are relying more on machinery. Technical knowledge has therefore become very important; without it there would be no production. In the past, the Soviet Union spent U.S. dollars and built American-style housing to attract American experts. We don't have to do that: the capitalists are eagerly looking for work, so why shouldn't we make use of them? It would be foolish not to do so and would only show that we don't understand politics. How valuable an asset will they be? I think they will be worth at least as much as the means of production we obtain from them. If we employ the capitalists, they can be an enormous help to us. The benefits will far outweigh the drawbacks.

Are the small merchants and peddlers a burden to us? Some of them are, but it is a burden the government must bear. We should make arrangements for them according to their individual situations, giving them wages ranging from ¥10 to ¥40 a month. This will be good for social stability. Most of the small merchants and peddlers will be indispensable for a long time to come. Without them the market would stagnate and people would find daily life much less convenient. So in my opinion, they are an asset, too. If all the peddlers selling won ton soup and sweet and sour plum soup were eliminated, leaving only fine restaurants like the Quanjude and the Donglaishun, the masses would surely hold it against us. They would also resent it if we took steps to get rid of the peddlers in the lanes and railway stations who sell cold food in summer and hot food in winter, or the ones who sell goods door-to-door or who go around buying scrap metal.

When we converted all private enterprises to joint ownership, we did

not give fixed interest or regular wages to small businessmen and peddlers, so they said the Communist Party favoured the rich but turned its back on the poor. We explained to them that this was not our intention. If we gave them fixed interest and regular wages, they might lose their incentive to do business, and the people would lose convenient services. Here is an example. Vegetable peddlers used to come regularly to cry their produce in the street where a certain vice-minister of the Ministry of Commerce lives. But after they were organized and paid ¥40 a month, they stopped coming. The reason was that whether they sold anything or not, they were still paid their ¥40. As a consequence, the residents of that street found it hard to buy vegetables.

Small merchants and peddlers are indispensable, and we should provide them with incomes appropriate to their individual circumstances. The comrades working in supply and marketing cooperatives should be responsible for this. If we do not provide for them, we shall be open to political attack. Altogether there are about 3 million small merchants and peddlers in the country, all of whom work independently. To ignore them and only make arrangements for the capitalists would be a political mistake. Will these people cause trouble? That's not likely, because they have only a small volume of sales. In some places larger enterprises have tried to squeeze out small businessmen and peddlers, so now they need protection from us to avoid losing their means of livelihood. We have two alternatives: one is to take care of them by giving them wages or relief, and the other is to allow them to continue doing business, guaranteeing them a certain level of income. It is up to the comrades working in the supply and marketing cooperatives and the bureaus of commerce to decide what to do, but unless this problem is solved, there will be no social stability and the peddlers will come to us demanding help. If the sales volume of the state stores decreases somewhat, it won't matter, because either way it will cost us something. One way we pay them wages or give them relief, and the other we reserve a part of the business volume for them so that they can operate independently. Which method is better? The latter, I should say. But if we cannot solve this problem, we shall all have to make self-criticisms at the People's Congress every year.

Some comrades may ask whether there is not a danger that they may make Right deviationist errors, abandon their political stand and lose their Party membership if they employ capitalists. They may also ask whether I can offer any guarantees in this regard. I cannot offer any guarantees, because I cannot be sure that no one will make any mistakes when dealing with the capitalists. But in any event, now that joint ownership has been instituted

and the capitalists have come over to our side, we have to make use of them. The only way you can avoid dealing with the capitalists is to give up your work in commerce and become a primary school teacher. We can't remould them into people who work for a living if we don't give them something to do. The Central Committee and the State Council have decided that capitalists should be employed in management positions in enterprises. This is absolutely correct. Comrades should not be afraid of making Right deviationist mistakes or abandoning their political stand.

Should we keep our distance from the capitalists, isolating ourselves to avoid picking up bourgeois ideology? No. Bourgeois ideology is an objective fact. Even now that the system of ownership has been changed, it will continue to exist for a long time. Of course, we must be especially vigilant in our relations with capitalists, because we could be affected by bourgeois ideology at any time. However, there is no point in being afraid.

I have said that we should make use of capitalists and their representatives, but I do not mean that we should accept only capitalists and not workers and shop assistants. It's just that the question we are discussing today is the employment of capitalists. We shall depend mainly on workers and office staff. So we should certainly promote some of them. Many of them are very experienced and can be trained to be leading cadres.

In conclusion, I should like to say something about another important question: the need to review our experience in the major aspects of our work in commerce. At this crucial turning point in that work we have to abandon our old methods and introduce new ones. Without new methods, we cannot meet the demands of new circumstances. To work out new methods, we need to study the old ones. We may not be able to make a thorough review of them all at once, but eventually we will. We have accumulated a great deal of experience in commerce over the last seven years. Since the successes and failures of our work are now evident, this is a good time for us to examine them.

We should draw some conclusions based chiefly on our own experience but also on the experience of older businessmen and that of foreign countries.

We should review our work in a number of areas, the most important of which are pricing policy, market control, planning, accounting, wages and political work. Our work in wholesaling, retailing, purchasing, and storage and transportation should also all be examined. We should take particular care to study the differences between socialist commerce and capitalist commerce. We should analyze our experience in every branch of commerce, including the trade in everyday household goods, metals and machinery, cotton yarn and cloth, and so forth. Both central and local departments

should draw up reports on their experience. If the reports are not too good, it doesn't matter. Two heads are better than one; when we have collected the information from all the departments, we can analyze it and summarize it in a better, overall report that will help us find new methods to improve our work.

I think that finding new methods based on our experience is more important than our day-to-day work. Summaries of our experience are like an infantry training manual and rules of combat for our "three million soldiers of commerce". Unless leaders in the central government and every province and municipality review their experience, they will not be good leaders of these forces. They will run out of policies, and that would be more serious than running out of any other commodity. Preparing a summary of your experience is not so hard if you put your mind on it and devote some time to it. In educating our cadres we rely heavily on such accounts, supplemented of course by teaching materials from People's University. Some comrades may worry about making mistakes when they write a summary. If you are not satisfied with your report, you can rewrite it and correct your mistakes. That will give you an even better understanding of your experience. If we do not examine the past in this way, we shall not be able to cope with new situations. Our comrades who deal with financial, banking and commercial affairs work hard but are often criticized for being too bureaucratic. Reviewing experience provides a chance for us to analyse what we did right and what we did wrong, so that we can think clearly and do better in future. If we do not review our work, we shall simply muddle on for years; then when we die we'll be ashamed to face Marx, and we'll be blamed by future generations. Reluctance to examine our past work is a weakness that must be overcome.

Let me say it one last time: if we want to improve our work we must review our experience.

## NOTES

<sup>1</sup> The southern front was the vast area of south China, which the Chinese People's Liberation Army, having crossed the Yangtze River from the north on April 21, 1949, was now fighting to liberate. PP. 13, 25

<sup>2</sup> Figures cited before March 1, 1955 are in old RMB, which was in circulation until then. On that date the People's Bank of China issued a new RMB to replace the old currency, one new yuan equalling 10,000 old yuan. PP. 13, 41, 45, 51, 64, 67, 98, 108, 127, 157, 162, 173, 182, 203, 212, 223, 247, 266, 274

<sup>3</sup> At this time Xikang was a province. Its territory was later incorporated into Sichuan Province and the Tibet Autonomous Region. P. 13

<sup>4</sup> Most of the areas mentioned here were, in fact, liberated much earlier than was estimated at the time Comrade Chen Yun was speaking: Qinghai on September 5, 1949, Xinjiang on September 26 and Xikang on December 9. P. 13

<sup>5</sup> The China Textile Corporation, established in Shanghai in December 1945, was a bureaucrat-capitalist enterprise that monopolized China's entire textile industry under the Kuomintang regime. After the founding of the People's Republic of China, it was nationalized, together with its subsidiary enterprises. P. 15

<sup>6</sup> The Shanghai Trade Department was under the Financial and Economic Take-Over Committee of the PLA's Shanghai Municipal Military Control Commission.

The Economic Co-operation Administration was established by the U.S. government in April 1948 to handle aid to foreign countries under the Marshall Plan. The 72,000 *dan* of cotton mentioned was supplied by this organization to the Kuomintang government, but was taken over by the people's government after the founding of the People's Republic of China. P. 15

<sup>7</sup> The Financial and Economic Commission of the CPC Central Committee was created in July 1949 by the merger of the Committee's Financial and Economic Department and the North China Financial and Economic Commission. On October 21 of the same year, it was brought under the Administration Council of the Central People's Government to give unified direction to related work throughout the country. It was abolished in 1954.

PP. 16, 24, 37, 41, 45, 48, 54, 56, 60, 67, 80, 93, 114, 171, 174, 180, 184, 207, 226, 229, 233, 244

<sup>8</sup> At this time trains were ferried from Pukou on the north side of the Yangtze River (just northwest of Nanjing) to Xiaguan on the south side. Until 1968, when the Nanjing Yangtze River Bridge was completed, the Tianjin-Pukou and Shanghai-Nanjing Railways were connected by the ferry at Pukou. P. 16

<sup>9</sup> As the People's Liberation Army advanced, banking and currency in the various liberated areas were gradually unified. On December 1, 1948, the People's Bank of China was established by a merger of the Bank of North China, the Beihai Bank and the Northwest Bank of Peasants. The new bank issued RMB for circulation in the liberated areas of north, east and northwest China. In March 1949, when the Zhongzhou Bank of Peasants in the Central Plains Liberated Area was reorganized into the Central Plains Branch of the People's Bank of China, monetary unification was basically completed in the liberated areas south of the Great Wall. PP. 17, 61

<sup>10</sup> During the conference which Comrade Chen Yun was addressing, the Central China Bureau (later renamed the Central-south Bureau) of the CPC Central Committee proposed that government bonds be issued in central China in two instalments totalling ¥160 to 200 billion (calculated in old RMB, for which see Note 2). P. 18

<sup>11</sup> At this time, for administrative purposes the country was divided into six broad geographical areas: the North China, Northeast, Northwest, East China, Central-south and Southwest Greater Administrative Regions, each of which had a bureau that served as the local representative organ of the Central Committee of the Party. Following the establishment of the Central People's Government in October 1949, an executive organ was set up in each of these greater administrative regions, except the one in north China. Thus northeast China had a people's government, and northwest, east, central-south and southwest China each had a military and administrative committee. In November 1952, all the executive organs in the greater administrative regions were renamed administrative committees and thereafter functioned as local agencies of the Central People's Government. North China also formed its administrative committee. In April 1954 the Enlarged Meeting of the Political Bureau of the CPC Central Committee decided to abolish Party and government organs at the level of greater administrative regions. PP. 18, 28, 37, 45, 52, 61, 72, 78, 204, 213, 218, 231

<sup>12</sup> In 1935 the Kuomintang government issued paper notes as the legal tender in the country, banning silver dollars. In 1937, however, because of soaring inflation in the Kuomintang-controlled areas following the outbreak of the War of Resistance Against Japan, silver dollars appeared on the market again. After the founding of the People's Republic of China, the People's Bank of China retired the silver dollars, redeeming them at a specified exchange rate, and strictly prohibited their circulation. The term "silver dollar", as occasionally used in this volume, denotes the real value of a given amount of currency or commodities. PP. 19, 71, 109, 130, 156, 194

<sup>13</sup> In addition to those already issued in northeast China. P. 19

<sup>14</sup> On March 6, 1949, the Northeast Administrative Committee decided to issue Production and Construction Bonds valued in commodities. Equally divided between two instalments roughly six months apart, they were to total 12 million *fen*, one *fen* being the aggregate value represented by the market prices in Shenyang of 2.5 kg. of sorghum, 1 foot of plain cotton cloth, 2.5 kg. of granular salt, and 17 kg. of coal. The bonds bore an annual interest of 2 per cent, plus for certain "lucky" bonds a prize of the same percentage, and they were to mature in three years. The plan for the first instalment was overfulfilled (25 per cent more bonds were issued and sold than had been anticipated), but the plan for the second was cancelled. P. 19

<sup>15</sup> These draft regulations, drawn up for the issuing of government bonds in east China, contained 13 articles. The basic provisions were as follows: both the price of the bonds and the interest they earned would be calculated in terms of commodities; the bonds would be in the amount of 30 million *fen*, each bearing an annual interest of 4 per cent and maturing in three years; and the issuing and redeeming of the bonds would be entrusted to the East China Branch of the People's Bank of China and its subordinate departments. P. 19

<sup>16</sup> A parity unit was the aggregate of the average wholesale prices of given amounts of certain commodities. In each locality, the value of the unit was calculated and announced every day or every 10 days by the branch of the People's Bank. This device, adopted shortly after the founding of the People's Republic of China, was an expediency designed to cushion the effect of inflation on national economic development and on the people's lives. PP. 19, 49, 83

<sup>17</sup> This was the general opinion at the time. Later, in view of the reluctance of the bourgeoisie to purchase government bonds, the CPC Central Committee decided to postpone issuing them until 1950 and then to issue them only in instalments. P. 20

<sup>18</sup> “Public grain” was the common term for the agricultural tax, which was paid chiefly in grain. The amount due was assessed twice a year, after the summer and autumn harvests, and collected once a year throughout the country at the same time. Public grain was the chief source of revenue for the people’s regime during the revolutionary war years, and it remained a major source for the people’s government after the founding of the People’s Republic of China. In this volume, therefore, public grain is often mentioned in conjunction with taxes. The latter term refers to customs duties, the salt tax and industrial and commercial taxes, which were paid in cash.

PP. 20, 30, 42, 53, 61, 67, 78, 85, 90, 99,  
104, 110, 114, 126, 141, 163

<sup>19</sup> Starting in March 1946, the Bank of Northeast China issued its own paper money for local circulation in the Northeast Liberated Area. After the region was liberated, the central authorities decided to postpone bringing the “northeast currency” into the unified national monetary system. The postponement was intended to accelerate the recovery of production, especially industrial production, in northeast China and to mitigate the effects on that region of the war that was still going on in other parts of China. On March 20, 1951, the Government Administration Council of the Central People’s Government decided to withdraw the locally circulating northeast currency and instructed the People’s Bank of China to recall its bank notes, exchanging them at the rate of 9.5 yuan for one yuan of RMB. At the same time, the Bank of Northeast China was made a subsidiary of the People’s Bank of China.

PP. 20, 60, 87

<sup>20</sup> “Twelve years of war” refers to the eight-year War of Resistance Against Japan (July 1937-August 1945) and the ensuing four-year War of Liberation (August 1945-September 1949).

PP. 22, 78, 92, 110, 142, 155

<sup>21</sup> “Divert more bank notes to the countryside” was a slogan of the time, designed to promote financial work in the rural areas, consolidate and expand the position of RMB and stimulate the flow of commodities between town and country.

PP. 23, 41

<sup>22</sup> During the War of Resistance Against Japan and the War of Liberation, finance and banking were decentralized, each of the liberated areas having its own bank, which issued its own currency, and each being responsible for its own revenue and expenditure. In 1948, however, in keeping with the new situation in which the revolutionary troops were advancing victoriously and the liberated areas were being linked together, the Communist Party began gradually to unify financial and economic work—first of all the issuing of currency—throughout the country.

P. 25

<sup>23</sup> Li Zhuchen (1881-1968), a native of Hunan Province, was director of the Yung Li (Yongli) Alkali Works and general manager of the Chiu Ta Salt Company, both in Tianjin. After the founding of the People’s Republic of China, he held a number of important government posts, including that of member of the Central People’s Government Council, Vice-Chairman of the North China Administrative Committee, Minister of Light Industry and Vice-Chairman of the All-China Federation of Industry and Commerce.

P. 26

<sup>24</sup> The city of Shenyang in Liaoning Province was liberated by the Northeast Field Army on November 2, 1948. This marked the victorious conclusion of the Liaoxi-Shenyang Campaign and the liberation of the whole of northeast China.

PP. 27, 33, 38

<sup>25</sup> On November 1, 1948, acting on instructions from the Central Committee of the Chinese Communist Party, the Committee’s Military Commission ordered the reorganization of the entire Chinese People’s Liberation Army and the adoption of a unified structure and standardized designations. According to the order, the PLA was to be composed of field, local and guerrilla forces. Designated according to the regions where they were stationed at the time, the field forces were the Northwest, Central Plains, East China and Northeast Field Armies. In the spring of 1949 they were renamed the First, Second, Third and Fourth Field Armies, respectively. The three army groups in north China were placed under the direct command of the PLA General Headquarters.

PP. 28, 72

<sup>26</sup> The China Merchants Steam Navigation Company, established in Shanghai in 1872, was first a government-owned enterprise, then a joint government-private enterprise and later a private enterprise under government supervision. In 1932 the Kuomintang government nationalized it and placed it under the Ministry of Communications. In 1948 it became a private limited-liability company, owning more than 460 ships, with a combined capacity of about 330,000 tons. On January 15, 1950, the personnel of its Hong Kong branch (the China Merchants Steam Navigation Co. Ltd., Hong Kong) rose in revolt against the Kuomintang authorities and accepted the leadership of the Communist Party. P. 29

<sup>27</sup> During the first few years after liberation, the wages of certain workers and other employees were paid in coupons whose value was calculated in terms of parity units or *fen*. According to regulations drawn up in September 1950 at the National Conference on Wage Reform, one *fen* equalled the total value of 0.4 kg. of grain, 0.2 foot of cotton cloth, 0.025 kg. of vegetable oil, 0.01 kg. of salt, and 1 kg. of coal. In 1956, this *fen* system was superseded throughout the country by a system of wages paid in cash. P. 33

<sup>28</sup> The Ministry of Heavy Industry was established in October 1949 and abolished in May 1956. P. 37

<sup>29</sup> Harbin was liberated on April 28, 1946. At that time, the Kuomintang forces were still stronger than the people's forces in northeast China. P. 38

<sup>30</sup> Siping, in Jilin Province, was liberated on March 13, 1948. This event marked the victorious conclusion of the winter offensive launched by the Northeast Field Army against the Kuomintang troops along the railway sections between Siping and Dashiqiao and between Shanhaiguan and Shenyang. This offensive, in which 18 cities were captured, more than 156,000 enemy troops were put out of action and the rest of the Kuomintang army was bottled up in Changchun, Shenyang, Jinzhou and a few other isolated cities, turned the tide of the war in northeast China. P. 38

<sup>31</sup> Northern Manchuria included Harbin, Mudanjiang, Jiamusi, Bei'an and other areas. On October 27, 1948, the Northeast Bureau of the Central Committee decided that Comrade Chen Yun, appointed director of the Military Control Commission of the Shenyang Special Municipality, should set out from Harbin, seat of the northern Manchuria base area, at the head of 4,000 cadres, to take over Shenyang and certain other cities in northeast China. PP. 38, 204

<sup>32</sup> From November 29, 1948 to January 31, 1949, the Northeast Field Army and two armies in north China launched the Beiping-Tianjin Campaign against the Kuomintang troops over an area extending from Zhangjiakou in the west to Tanggu and Tangshan in the east. On January 15, 1949, Tianjin was liberated, and all the 130,000 Kuomintang defending troops were wiped out. Thanks to our efforts to win them over to negotiations, the 200,000 enemy troops defending Beiping under the command of Fu Zuoyi, commander-in-chief of the Kuomintang North China "Bandit Suppression" Headquarters, surrendered and were reorganized by the PLA. Beiping was peacefully liberated on January 31. During the whole campaign, over 520,000 enemy troops were put out of action or incorporated into the PLA. Together with the victories in the Liaoxi-Shenyang and Huai-Hai Campaigns, the triumphant conclusion of the Beiping-Tianjin Campaign demolished the main military prop of the reactionary Kuomintang regime, bringing the revolutionary forces close to nationwide victory. P. 38

<sup>33</sup> At this time Qian Zhiguang (1900-94) was Vice-Minister of the Textile Industry under the Central People's Government. P. 42

<sup>34</sup> The Ministry of Trade, established in October 1949 under the Central People's Government, was in charge of domestic and foreign trade. It was abolished in August 1952, when its functions were divided between two new ministries, the Ministry of Commerce and the Ministry of Foreign Trade.

PP. 42, 46, 52, 68, 81, 86, 99, 104, 138, 174

<sup>35</sup> Pingyuan Province was abolished in 1952, its territory being incorporated into Shandong and Henan provinces. PP. 42, 93

<sup>36</sup> Dragon Head was the brand name for a fine, tightly woven cotton cloth produced by the Shanghai No. 17 Cotton Mill. The brand was dropped in 1958 but has again been in use since 1978.

Gold City was the brand of cotton yarn produced by the Shanghai Wing On (Yong'an) Company. The brand was discontinued in September 1960, when the price of cotton yarn was fixed according to quality. P. 45

<sup>37</sup> See "Measures to Check the Sharp Rise in Prices", pp. 41-44 of this volume. P. 45

<sup>38</sup> Bo Yibo (1908- ), a native of Shanxi Province, was at this time Vice-Chairman of the Central Financial and Economic Commission under the Government Administration Council and concurrently Minister of Finance. The guidelines on which the Budget Estimates for 1950 were based were: to ensure military victory and gradually restore production; to balance the budget insofar as possible; and to collect revenue rationally and spend it appropriately. The implementation of this budget helped to stabilize prices and secure a better life for the people.

PP. 45, 48, 51, 56, 61, 66, 79, 98, 201

<sup>39</sup> During the twelve years of the War of Resistance Against Japan and the War of Liberation, the Kuomintang government recklessly issued bank notes, which led to terrible inflation and spiralling prices that made life unendurable for the people. Statistics reveal that at the end of the period from June 1937 to May 1949 the total volume of currency issued was 140 billion times greater than at the beginning and prices were 8,500 billion times higher.

PP. 48, 92, 98, 102

<sup>40</sup> The Administration Council of the Central People's Government was established in October 1949. In September 1954, in accordance with the Constitution of the People's Republic of China adopted at the First Session of the First National People's Congress, it was replaced by the State Council of the People's Republic of China.

PP. 48, 51, 56, 79, 84, 114, 159, 181

<sup>41</sup> At this meeting the Central People's Government Council adopted the proposed Decision on the Issuance of Parity "People's Victory" Government Bonds. The original plan called for issuing 200 million *fen's* worth of bonds. Carrying an annual interest of 5 per cent, they were to be redeemed within five years. The first instalment totalling 100 million *fen* was issued from January to March 1950. Thanks to the subsequent improvement in the national financial and economic situation, however, the second instalment was never issued. One *fen*, the parity unit, was the equivalent of the aggregate value of the average wholesale prices of 3 kg. of rice (millet in the case of Tianjin), 0.75 kg. of wheat flour, 4 feet of fine white cotton cloth and 8 kg. of coal, as quoted in the six big cities of Shanghai, Tianjin, Hankou, Xi'an, Guangzhou and Chongqing.

PP. 49, 51, 68, 90, 111

<sup>42</sup> The National Budget Estimates for 1950 had been drafted by the Central Financial and Economic Commission and adopted by the Central People's Government Council at its Fourth Meeting, on December 2, 1949.

PP. 53, 60, 66, 103, 127

<sup>43</sup> During the War of Resistance Against Japan and the War of Liberation, the authorities of the various liberated areas issued currencies of their own, which differed in value. For this reason, and also because prices were unstable, they calculated not only the monthly allowances for personnel but also their budgets and final accounts in terms of millet. Although parity units were introduced in 1949 (see Note 16, above), the old method of calculation remained in general use until 1950, when prices were stabilized and millet was gradually replaced by RMB.

PP. 54, 116

<sup>44</sup> Ma Yinchu (1882-1982), a native of Zhejiang Province, was at this time Vice-Chairman of the Central Financial and Economic Commission, as well as Vice-Chairman of the East

China Military and Administrative Commission and President of Zhejiang University. P. 56

<sup>45</sup> At this time, a few Shanghai capitalists were preparing to set up a private enterprise to be known as the Dahua Civil Aviation Company. Because of the principle stated, their plan was never carried out. P. 56

<sup>46</sup> The China National Aviation Corporation (CNAC), established in 1929, was a Kuomintang bureaucrat-capitalist enterprise. It was based in Shanghai until, on the eve of that city's liberation, the corporate headquarters were moved to Hong Kong. At the time, CNAC owned more than 50 planes of various sizes. On November 9, 1949, the 4,000 employees of CNAC and the Central Air Transport Corporation revolted against the Kuomintang regime and pledged allegiance to the Central People's Government. On November 12 Premier Zhou Enlai declared, in the name of the Chinese Government, that the property of the two corporations belonged to the People's Republic of China and that from then on the Chinese Government would exercise jurisdiction over them. P. 56

<sup>47</sup> The document referred to is the Directive of the Government Administration Council on Relief to the Disaster Areas Through Production, which was signed by Premier Zhou Enlai on December 19 and released for distribution. P. 56

<sup>48</sup> A reference to the Regulations on the Issuance in 1950 of the First Instalment of Parity "People's Victory" Government Bonds. P. 57

<sup>49</sup> From February 13 to 25, 1950, the Central Financial and Economic Commission held in Beijing a national conference on financial work. In preparation for this important meeting, the ministries under the Commission held a series of specialized conferences designed to clarify the overall situation. After detailed discussions, delegates to the conference decided to cut back expenditure, improve the collection of revenue and unify management of the nation's financial and economic affairs. Their aims were to achieve a balance between state revenue and expenditure and between the supply and demand for commodities, and to bring about monetary and price stability. On March 3, acting on the conclusions reached at this conference, the Government Administration Council adopted the Decision on Unifying Management of the Financial and Economic Affairs of the State. Subsequently, a new situation emerged in which the nation's revenue and expenditure were nearly balanced, and monetary value and commodity prices were tending towards stability. PP. 57, 67, 85, 129

<sup>50</sup> This conference was held in Beijing from December 16 to 25, 1949, by the Ministry of Heavy Industry under the auspices of the Central Financial and Economic Commission. The participants at the conference drew up a national plan for iron and steel production in 1950 and laid down the principle of concentrating production in the Northeast while restoring production in north and central China. They also discussed the training of technical personnel for the iron and steel industry and made overall arrangements for their assignment. In view of the unique importance of the Northeast in the development of this industry and of the serious shortage of technical personnel there, the conference decided to transfer to the region large numbers of such personnel from north, east and central-south China. P. 59

<sup>51</sup> "Local taxes" was a general term for those taxes which were left at the disposal of local authorities. By its Decision on Unifying Management of Financial Revenue and Expenditure for 1950, issued on April 1, 1950, the Government Administration Council divided taxes into two categories: those to be turned over to the central authorities and those to be retained by local authorities. Public grain, customs duties, the salt tax, the commodity tax, and industrial and commercial tax collected by local authorities were to be assets of the Central People's Government and placed at the disposal of the Ministry of Finance. Other taxes (such as the income tax on interest from bank deposits, the stamp tax on commercial documents, the sales tax on selected items, the slaughter tax, real estate tax, the hotel, restaurant and entertainment tax, and the tax on license plates for wheeled vehicles and watercraft) were to be allocated by the Ministry of Finance to the governments of the greater administrative regions and of the provinces and municipalities directly under the Central People's Government, in accordance

with their budgets. The departments of finance of the greater administrative regions would then decide on the proportion of these tax receipts to be allocated to the governments of the provinces and municipalities under their jurisdiction. The Government Administration Council also stated in its decision that the authorities of the greater administrative regions, provinces and municipalities must strive to collect all the public grain and taxes expected of them, in accordance with the relevant policies, tax categories, regulations and rates defined by the Central People's Government. As for above-quota receipts of grain, 80 per cent of them were to be retained by the local authorities concerned, and 20 per cent turned over to the central authorities; for above-quota tax receipts, the breakdown was to be 70/30.

PP. 62, 72, 80, 86, 173

<sup>52</sup> The commodity tax was to be introduced in the Guidelines for Nationwide Implementation of the Tax Policy issued by the Council on January 31, 1950. At the same time, the Council also issued the Provisional Regulations on the Consolidated Commodity Tax. In its Circular on Some Revisions of the Tax System and the Date of Their Implementation, issued on December 31, 1952, the Central Financial and Economic Commission made some amendments to the stipulations on commodity tax. On September 13, 1958, the State Council promulgated the Draft Regulations on the consolidated Industrial and Commercial Tax, merging the four major industrial and commercial taxes of the time (commodity tax, commodity circulation tax, business tax and stamp tax) into one known as the "consolidated industrial and commercial tax".

PP. 62, 80, 192, 211

<sup>53</sup> The industrial and commercial tax was another tax that would be introduced in the Guidelines for Nationwide Implementation of the Tax Policy, mentioned in Note 52 above. In another document, Provisional Regulations on the Industrial and Commercial Tax, issued by the Government Administration Council at the same time, it was provided that the industrial and commercial tax would consist of both a business tax and an income tax. With the introduction of the consolidated industrial and commercial tax in September 1958, the income tax became a separate category called the "industrial and commercial income tax", while the business tax became a component of the newly introduced consolidated industrial and commercial tax.

PP. 62, 111, 121, 192

<sup>54</sup> Although the local surtax was not included in the state budget, the state set a strict limit on its amount. In general, it was not to exceed 15 per cent of the regular agricultural tax, or 30 per cent in certain regions in which highly profitable cash crops were grown.

PP. 62, 80, 86, 173

<sup>55</sup> The PLA Second Field Army, under the command of Liu Bocheng and Deng Xiaoping, together with the 18th Army and part of the First Field Army, under the command of He Long and Li Jingquan, had begun their march on southwest China in early November 1949. They liberated Guiyang on November 15 and Chongqing on November 30. On December 9 Lu Han, Kuomintang governor of Yunnan Province, Liu Wenhui, KMT governor of Xikang Province, and Deng Xihou and Pan Wenhua, deputy directors of the KMT Bureau of Military and Administrative Affairs in the Southwest, revolted against the Kuomintang regime, thus bringing about the peaceful liberation of Yunnan and Xikang. In the Chengdu Campaign, conducted in late December, the PLA forces put all of Hu Zongnan's troops out of action and, on the 27th, liberated Chengdu. This marked the liberation of the whole of southwest China.

PP. 64, 90

<sup>56</sup> There were four serious episodes of nationwide price fluctuation from April 1949 to February 1950. The first took place in April 1949, when prices rose by 180 per cent over the average price in the preceding month. The second occurred during July and August of the same year, with prices rising again by 180 per cent in July, compared with the average price in June. The third and biggest increase came from October 15 to November 25, by the end of which period prices were 350 per cent higher than in the base period of September. The fourth occurred at the beginning of 1950, with a 90 per cent price increase in February over

the base period of early January. Each time, the price rise spread from the large cities to other places, with prices of grain, cotton yarn and cotton cloth taking the lead. And each time the central financial and economic departments took firm measures to limit the price rises within a specific range and avoid serious inflation. Beginning from March 1950, national revenue and expenditure were brought nearly into balance, and market prices approached stability. (See “Measures to Check the Sharp Rise in Prices” and “Some Ideas on Price Control”, pp. 41-44 and pp. 45-46 of this volume, respectively.) PP. 64, 68, 91, 127

<sup>57</sup> This conference was held from December 5 to 11, 1949. In accordance with the guidelines laid down at the Fourth Meeting of the Central People’s Government Council, the participants discussed the basic financial and economic situation in Shanghai and ways to overcome the current difficulties. P. 65

<sup>58</sup> Rong Yiren (1916- ), a native of Jiangsu Province, was at this time general manager of the administrative office of the Shanghai Shenxin Textile Company. P. 65

<sup>59</sup> The “crisis of last June” refers to the run on silver dollars brought about by monetary speculators in Shanghai following the city’s liberation on May 27, 1949. Within a matter of 13 days (from May 28 to June 9), the black market price of a silver dollar rose from about RMB ¥600 to over ¥1,800. This caused a steep rise in the prices of gold, foreign currencies and all commodities. To cope with the situation, the Shanghai Municipal Military Control Commission quickly banned speculation in silver dollars, gold and U.S. bank notes. On June 10 it sealed up the building of the Shanghai Stock Exchange, the city’s biggest centre for such speculation, and then cracked down on a number of the worst offenders. By and large, these measures put an end to monetary speculation on the Shanghai market. P. 65

<sup>60</sup> “Gold yuan” notes were a kind of paper money issued by the Kuomintang regime, beginning on August 19, 1948. A time limit was set for exchanging it for the fast depreciating Kuomintang currency (another kind of paper money that had been issued since 1935) at the rate of 1:3,000,000, and with privately held gold, silver and foreign currencies. By May 1949, that is to say, within less than 10 months, the total amount of “gold yuan” notes issued rose from the planned figure of ¥2 billion to ¥68,000 billion. The result was a sharp fall in currency value and a precipitous rise in commodity prices. After the founding of the People’s Republic of China, the people’s government used RMB to call in all the “gold yuan” notes at the exchange rate of 1:100,000, and then abolished them as a currency. P. 65

<sup>61</sup> Ji Chaoding (1903-63), a native of Shanxi Province, was at this time head of the Government Administration Council’s Working Group for the Takeover of Former Chinese Government Organizations in Hong Kong and Kowloon. P. 70

<sup>62</sup> The Manchukuo regime, set up by the Japanese imperialists following their invasion and occupation of northeast China in 1931, was demolished in August 1945, when the Chinese people triumphed in the War of Resistance Against Japan. P. 70

<sup>63</sup> See “Bringing Financial and Economic Work Under Unified Management”, pp. 61-63 of this volume. P. 71

<sup>64</sup> The agrarian reform was a revolutionary movement to abolish feudal landownership and give land to the peasants. It was conducted by the peasants under the leadership of the Chinese Communist Party in the early days of the People’s Republic. On June 30, 1950, the Central People’s Government promulgated the Agrarian Reform Law, and the following winter agrarian reform movements were launched successively in the new liberated areas. By the winter of 1952, the reform had basically been completed throughout the country, except in Taiwan Province and in certain areas inhabited by minority nationalities. About 300 million landless or land-poor peasants (including peasants in old liberated areas) had received some 700 million *mu* of land [1 *mu* = 1/15 hectare], together with other means of production.

PP. 75, 104, 117, 131, 143, 155, 159, 174, 279, 304

<sup>65</sup> Nie Rongzhen (1899-1992), a native of Sichuan Province, was at this time Deputy Chief

of the General Staff of the People's Revolutionary Military Council and concurrently Commander of the North China Military Command, Director of the Beijing Municipal Military Control Commission and Mayor of Beijing. P. 79

<sup>66</sup> Yang Lisan (1900-54), a native of Hunan Province, was at this time Minister of the Food Industry, Chief of the General Logistics Department of the People's Revolutionary Military Council and a member of the Financial and Economic Commission of the Government Administration Council. P. 79

<sup>67</sup> A reference to the Directive of the People's Revolutionary Military Council on the Army's Participation in Production and Construction in 1950, dated December 5, 1949, and signed by Mao Zedong, Chairman of the People's Revolutionary Military Council. The directive reads in part: "Experience shows that in participating in production, the army should be strictly prohibited from engaging in commercial activities, such as running shops. Any military cadres who are smuggling, hoarding or speculating in goods for exorbitant profits, or are attempting to do so, must be stopped without delay. Such actions are forbidden by law, because they not only contravene correct production principles and disrupt the economic order, but also invite embezzlement and corruption, thus leading our comrades astray." P. 81

<sup>68</sup> Enterprises owned by the Central People's Government were ones for which the various government departments had provided the investment and which were, in principle, managed by those departments. PP. 82, 86

<sup>69</sup> In its Decision on Revenue and Expenditure for 1951, promulgated on March 29, 1951, the Government Administration Council decreed that funds for the initial investment in state-owned enterprises and for their operating expenses would be provided in the same way as in 1950. That is, funds for enterprises owned by the central government would be included in the national budget, while those for enterprises owned by local governments would be included in local budgets. In the case of enterprises belonging to the central government but managed by local authorities, the latter would be responsible for receiving, spending and accounting for the funds provided by the central government.

On May 24, 1951, the Government Administration Council promulgated a Decision on the Powers of the Central and Local Authorities in Financial and Economic Work. With regard to enterprises in the localities that were directly managed by the ministries, administrations and banks of the central government, this document provided that the governments (or military and administrative commissions) of the greater administrative regions should designate relevant local authorities to supervise, guide and assist such enterprises and provide leadership in all their political work. The leaders of the enterprises were to report on their work to the local authorities at regular intervals. As for enterprises entrusted by the central authorities to the management of the local authorities and key enterprises owned and managed by them, the local authorities were to report on their work to the central government departments concerned and accept the guidance provided by those departments with regard to operational principles and technology. The local authorities were required to secure approval for their plans for production and capital construction from the relevant central departments or from the Central Financial and Economic Commission. P. 82

<sup>70</sup> After the founding of the People's Republic of China, foreign exchange was placed under the centralized management of the government. A private individual residing in China—whether Chinese, a foreign national or a stateless person—who wished to buy foreign currency from the Bank of China to remit or carry abroad was required to apply first for the approval of the department in charge of foreign exchange in his or her locality. P. 82

<sup>71</sup> See "Decision on Unifying National Financial and Economic Work", pp. 78-83 of this volume. P. 84

<sup>72</sup> On March 3, 1950, the Central Committee of the CPC issued to Party committees at all levels a Circular on Unifying National Financial and Economic Work. This circular read

in part: "For a long time while the liberated areas were separated, comrades in each locality handled their financial and economic affairs independently. At the time, this system was absolutely necessary and correct, and it enabled us to accomplish a great deal. However, it is now time to make some changes; otherwise we shall make serious mistakes." P. 85

<sup>73</sup> Cf. "The Current Economic Situation and Measures for Readjusting Industry, Commerce and Taxation", pp. 114-124 of this volume. PP. 93, 128, 153, 272, 286

<sup>74</sup> The former province of Liaoxi was abolished in 1954 and its territory incorporated into Liaoning and Jilin provinces. The former province of Rehe was abolished the following year and its territory divided among Hebei and Liaoning provinces and the Inner Mongolia Autonomous Region. P. 96

<sup>75</sup> From May 8 to 25, 1950, the Financial and Economic Commission of the Government Administration Council held in Beijing a conference of the directors of the bureaus for industry and commerce of Beijing, Shanghai, Tianjin, Wuhan, Guangzhou, Chongqing and Xi'an. The participants analysed the reasons for the sluggish sale of certain commodities and for the decision taken by increasing numbers of private industrial and commercial enterprises to go out of business or suspend operations after prices had become stable throughout the country. They also discussed ways to solve these problems. After the conference, a campaign was launched to readjust industry and commerce. In six months this campaign helped private industrial and commercial enterprises not only to overcome their difficulties but to expand, starting them on the road to state capitalism. PP. 101, 102, 123, 164, 170

<sup>76</sup> Hu Zongnan (1896-1962) was Deputy Commander of the Eighth War Zone during the War of Resistance Against Japan. Following Chiang Kai-shek's policy of passive resistance to Japan and active opposition to the Communist Party, Hu stationed his troops in northwest China in an attempt to blockade the Shaanxi-Gansu-Ningxia Border Region. During the War of Liberation, he was the Kuomintang government's Deputy Commander of the Northwest Military and Administrative Commissioner's Office and Director of the Xi'an Pacification Headquarters. After his remaining forces were wiped out in 1949, he fled to Taiwan. P. 103

<sup>77</sup> The five sectors of the economy that existed in China at this time were: the socialist state sector, the semi-socialist co-operative sector, the peasants' and handicraftsmen's individual sector, the private capitalist sector, and the state capitalist sector. In the report entitled "Fight for a Fundamental Turn for the Better in the Nation's Financial and Economic Situation" delivered at the Third Plenary Session of the Seventh Central Committee held on June 6, 1950, Mao Zedong said the following with regard to the need to give overall consideration to the five sectors: "In line with the principle of making over-all plans and taking all factors into consideration, drifting and anarchy in our economic work should be gradually eliminated, existing industry and commerce should be properly readjusted, and relations between the state sector and the private sector and between labour and capital should be effectively and suitably improved; thus under the leadership of the socialist state sector all sectors of the economy will function satisfactorily with a due division of labour to promote the rehabilitation and development of the whole economy." PP. 106, 151, 163, 193, 272

<sup>78</sup> The Common Programme of the Chinese People's Political Consultative Conference, adopted at its First Plenary Session on September 29, 1949, defined China's state system and basic policies regarding political, military, economic, cultural, educational, minority nationality and diplomatic affairs. It was a programme for reconstruction and was drawn up jointly, under the leadership of the Chinese Communist Party, by representatives of all the democratic parties, mass organizations and people from all China's nationalities and from different sectors of society. The Common Programme articulated a common goal for all the Chinese people and served as the political basis for united action during a certain period. It functioned as a provisional constitution until the promulgation of the Constitution of the People's Republic of China in 1954. Article 26 of the Common Programme reads as follows: "The basic principle for the economic construction of the People's Republic of China is to develop

production and bring about a prosperous economy through the policies of taking into account both public and private interests, of benefiting both labour and capital, of mutual aid between the city and countryside and circulation of goods between China and abroad. The state shall co-ordinate and regulate state-owned economy, co-operative economy, the individual economy of peasants and handicraftsmen, private capitalist economy and state capitalist economy, in their spheres of operations, supply of raw materials, marketing, labour conditions, technical equipment, policies of public and general finance, etc. In this way all components of the social economy can, under the leadership of the state-owned economy, carry out division and co-ordination of labour and play their respective parts in promoting the development of the social economy as a whole.”

PP. 106, 115, 164, 188

<sup>79</sup> The term “friction” was widely used during the anti-Japanese war to refer to the actions undertaken by the Kuomintang diehards to wreck the Anti-Japanese National United Front and to oppose the Communist Party and the progressive forces. Here, it is used to refer to the contradictions among the five sectors of the economy.

PP. 106, 169

<sup>80</sup> The “northern warlords” were a clique of feudal warlords formed by Yuan Shikai in the northern provinces towards the end of the Qing Dynasty. In 1895 Yuan Shikai was ordered by the Qing government to organize and train in Xiaozhan, Tianjin, a New Army, which was to be under the control of the Minister of the Northern Coastal Provinces. In 1901, having been appointed governor of Zhili Province and concurrently Minister of the Northern Coastal Provinces, Yuan Shikai gathered his own followers around him to form a military clique. After the Revolution of 1911 he usurped the provisional presidency of the Republic of China and established the first northern warlord government, representing big landlords and the comprador class. After his death in 1916, this clique split into the Zhili, Anhui and Fengtian cliques, which were backed respectively by the British, Japanese and other imperialist powers. The cliques fought numerous engagements with each other for control of the country. In 1926 Duan Qirui, warlord of the Anhui clique, was forced out of power, and in 1927 the warlords of the Zhili clique were wiped out by the National Revolutionary Army. With the collapse of the warlord government of the Fengtian clique in 1928, the reactionary rule of the northern warlords came to an end.

PP. 110, 141, 308

<sup>81</sup> The single agricultural tax with fixed quotas was included later in the Provisional Regulations Concerning the Agricultural Tax in the New Liberated Areas, promulgated by the Central People’s Government on September 5, 1950. The policy of imposing no further taxes, even if the year’s crops were bigger than anticipated, was not put into practice until 1953. At that time a great victory was won in the War to Resist U.S. Aggression and Aid Korea, and a fundamental turn for the better was achieved in the national financial and economic situation. These successes laid the foundation for the implementation of the policy. Originally designed to last three years—that is, from 1953 through 1955—it remained in force until 1957 and did much to arouse the enthusiasm of the peasant masses for production and to increase crop yields.

P. 111

<sup>82</sup> The transaction tax was defined in the Outline of Regulations for Implementing the National Tax Policy, issued by the Administration Council of the Central People’s Government on January 31, 1950, although no tax law was promulgated at the time. It was to be levied in rural localities, mainly on sales of grain, cotton, homespun cloth, livestock, medicinal materials and so on. In 1951 the government replaced the transaction tax on homespun cloth with a commodity tax. By the Circular on Certain Amendments to the Tax System and on the Date for the Implementation of the System, promulgated by the Financial and Economic Commission of the Government Administration Council on December 31, 1952, the transaction tax on grain was likewise replaced with a commodity tax, and the one on cotton was incorporated into the commodity circulation tax. As for the transaction tax on the sale of livestock, the circular stated that the Ministry of Finance would promulgate methods for collecting it and that they should be adopted throughout the country. In 1962, in order to strengthen control over trade at rural markets, a tax on such trade was also

introduced.

PP. 111, 122

<sup>83</sup> Cf. "Decision on Unifying Financial and Economic Work", pp. 78-83 of this volume.  
PP. 114, 128, 137, 145, 206

<sup>84</sup> See "Fight for a Fundamental Turn for the Better in the Nation's Financial and Economic Situation" (June 6, 1950). P. 117

<sup>85</sup> *Ibid.*, p. 29.

P. 117

<sup>86</sup> In old China, most trade associations established by industrialists and merchants were controlled by powerful capitalists and feudal gangsters. After the founding of the People's Republic of China, they were reorganized into professional organizations under the leadership of the Federation of Industry and Commerce.  
PP. 120, 166, 293, 315

<sup>87</sup> Federations of industry and commerce are mass organizations of industrialists and merchants. In August 1952 the Administration Council of the Central People's Government promulgated General Rules for Organizing a Federation of Industry and Commerce. According to this document, the basic tasks of the federations are as follows: to encourage industrialists and merchants to abide by the Common Programme and the policies and decrees of the government and to expand production and improve management in accordance with the state economic plan; to represent the legitimate interests of private industrialists and merchants by making suggestions to the people's government and discussing labour-capital relations with trade unions; and to organize them to study, remould their thinking and participate in various patriotic activities. According to administrative divisions of the country, there are federations at the national, provincial, municipal and county levels.

PP. 120, 138, 162, 292, 304, 315, 327

<sup>88</sup> Immediately after the outbreak of a civil war in Korea on June 25, 1950, the U.S. imperialists dispatched troops to invade Korea. At the same time they sent troops to invade China's territory of Taiwan. On September 15, under the banner of United Nations forces, U.S. troops landed at Inchon on the west coast of Korea. They then crossed the 38th Parallel *en masse* and pushed north, bombing and strafing the frontier cities and villages of northeast China and thus presenting a serious threat to China's security. To support the Korean people in their war of resistance against U.S. aggression and for national salvation and to defend the new-born China, the Chinese people, in response to Chairman Mao Zedong's call, organized the Chinese People's Volunteers with Peng Dehuai as commander and political commissar. On October 25 the Volunteers marched to the Korean battlefield and thereafter fought shoulder to shoulder with the Korean People's Army against the U.S. aggressors. On November 4 China's democratic parties issued a joint declaration expressing support for the action of the Volunteers. The people gave all-out support to the war effort in Korea by increasing production and practising economy, signing up for the Volunteers and donating money to buy weapons. On July 10, 1951, having suffered one defeat after another at the hands of the Chinese and Korean people's armies, the U.S. imperialists had to hold the first armistice negotiations with Chinese and Korean representatives in Kaesong. However, they procrastinated and tried to hamper the negotiations. As a result, the war continued during the negotiations. After two more years of fighting, on July 27, 1953, the U.S. imperialists were finally obliged to sign the Korean Armistice Agreement. Thus, the war ended in victory for the Korean and Chinese peoples.  
PP. 125, 140, 158, 171, 172, 206, 270, 304

<sup>89</sup> The Chinese Communists were in Yan'an, the Taihang Mountains and Fuping during the War of Resistance Against Japan. They were in Harbin and Zhangjiakou during the War of Liberation.  
P. 126

<sup>90</sup> The supply system was a distribution system in effect during the years of the revolutionary war and in the early days of the People's Republic. Under this system, the primary means of subsistence were distributed on a roughly equal basis to the personnel of Party and government organizations and to the officers and men in army units. After 1950 the supply

system was supplanted by a system of payment partly in kind and partly in cash—that is, certain basic items, such as food and clothing, were no longer supplied in kind but provided for with payment in money. By 1955 both the supply system and the mixed system had been replaced by the wage system. P. 126

<sup>91</sup> In April 1951, in coordination with the institution of a state monopoly of the purchase and marketing of cotton yarn, a sales tax on cotton yarn was introduced. On December 31, 1952, the Financial and Economic Commission of the Government Administration Council promulgated a Circular on Some Revisions of the Tax System and on the Date of its Implementation, which abolished this tax and incorporated it into the general tax on commodity circulation. PP. 131, 205

<sup>92</sup> On September 5, 1950, the Central People's Government issued Provisional Regulations Regarding the Public Grain Tax in the New Liberated Areas. This document stipulated that the local public grain surtax should not exceed the regular agricultural tax by more than 15 per cent. On June 21, 1951, in its Directive on Collecting the Agricultural Tax in 1951, the Government Administration Council provided that the local surtax should be increased to no more than 20 per cent of the regular agricultural tax.

After the agrarian reform was completed, a tax was levied on certificates issued to attest ownership of land and houses. On February 12, 1951, the Government Administration Council issued a Decision on Collecting Taxes for Certificates of Ownership of Land and Houses. According to this document, these taxes were to be of two sorts. One was a tax of 2.5 kg. of grain (rice, millet or flour) for one *mu* [1/15 hectare] of paddy field, threshing ground or housing area; the other was a tax of 1.25 kg. of grain for one *mu* of "dry" farmland. Anyone who wanted to sell, buy, mortgage, give or exchange land or houses for which a certificate had been obtained had to apply for a new certificate and pay taxes according to the Provisional Regulations Regarding the Tax on Land Certificates promulgated by the Government Administration Council on April 3, 1950. P. 132

<sup>93</sup> Article 40 of the Common Programme reads as follows: "A budget and financial statement system shall be instituted. The spheres of financial administration of central and local governments shall be defined. Economizing and frugality shall be enforced. The budget shall be steadily balanced and capital accumulated for the country's production." P. 135

<sup>94</sup> On December 25, 1950, the People's Bank of China presented two documents to the Financial and Economic Commission of the Government Administration Council: Regulations for Financial Control and Regulations for Planning Revenue and Expenditure. These regulations were designed to tighten control of cash, introduce a system of statement of accounts, centralize management of short-term credit and provide for supervision of investment in capital construction. After having been approved, they were put into effect on a trial basis. P. 137

<sup>95</sup> When a state-owned enterprise commissioned finished products from a private factory to which it supplied the raw or semi-finished materials, it paid a fee to cover reasonable manufacturing costs, profits and business tax. PP. 138, 176, 183, 286

<sup>96</sup> Under the supply system, the state paid all production costs without examining them critically. P. 146

<sup>97</sup> The agreement mentioned here is the Sino-Soviet Treaty of Friendship, Alliance and Mutual Assistance signed by the governments of the two countries in Moscow on February 14, 1950. P. 147

<sup>98</sup> The three-tiered system of management of revenue and expenditure had been decided upon at a National Conference on Financial Work held by the Financial and Economic Commission of the Government Administration Council in Beijing in February of 1951. It was formally established on March 29, when the Council promulgated the Decision on Revenue and Expenditure for 1951. P. 148

<sup>99</sup> Li Xiannian (1909-92), a native of Hubei Province, was at this time Secretary of the Hubei Provincial Committee of the Chinese Communist Party, Chairman of the Hubei People's Government, Commander of the Hubei Military Region and Chairman of the Hubei Financial and Economic Commission. P. 148

<sup>100</sup> In a document dated February 18, 1951, Chairman Mao Zedong, reporting on a decision taken by the Central Committee's Political Bureau, had written that: "The idea of 'three years for preparation and ten years for planned economic development' must be made clear to all cadres from the provincial and municipal level upwards." See "Main Points of the Resolution Adopted at the Enlarged Meeting of the Political Bureau of the Central Committee of the Communist Party of China" (February 18, 1951). P. 149

<sup>101</sup> The movement to suppress counter-revolutionaries was conducted throughout China from 1950 to 1953. In the early years of the People's Republic there were still many bandits, local tyrants, secret agents of the U.S. imperialists and Chiang Kai-shek, leading members of the reactionary parties and other organizations, heads of reactionary secret societies and other counter-revolutionaries. They engaged in all kinds of activities to undermine the people's revolution and construction. To establish and consolidate revolutionary order, a movement to suppress counter-revolutionaries was launched throughout the country in accordance with the Directive on Suppressing Counter-Revolutionary Activities issued by the Central Committee of the CPC and the Regulations of the People's Republic of China Regarding Punishment of Counter-revolutionaries promulgated by the Central People's Government. This movement dealt a heavy blow to the remaining counter-revolutionary forces and consolidated the people's democratic dictatorship. P. 149

<sup>102</sup> The Xiaofengman Hydroelectric Power Station is located in the upper valley of the Songhuajiang River, southeast of the city of Jilin in Jilin Province. Damaged by the Kuomintang reactionaries during the War of Liberation, it was rebuilt in 1957. At the time, its generating capacity was 480,000 kw. P. 150

<sup>103</sup> The formal decision to establish a State Planning Commission was adopted by the Central People's Government Administration Council at its 19th meeting, on November 15, 1952. P. 151

<sup>104</sup> On August 7, 1952, at its 17th meeting, the Central People's Government Administration Council decided to establish a Ministry of Geology (now the Ministry of Geology and Mineral Resources). P. 151

<sup>105</sup> The agrarian reform referred to here is the one that had been launched in the old liberated areas, in accordance with the Directive on the Land Question issued by the Central Committee of the CPC on May 4, 1946. P. 155

<sup>106</sup> A reference to "The Communist Party of China Is Leading National Reconstruction," written in commemoration of the 30th anniversary of the founding of the Chinese Communist Party and published in *Xinhua Monthly*, July 1951, pp. 504-06. The article reads in part: "With economic recovery and cultural development, students need no longer worry that graduation will mean unemployment. There is now a shortage of graduates from colleges and universities. There are far too few of them to meet the demands of the economic, cultural, educational and administrative institutions. The state can ensure that every college graduate will get a job." P. 164

<sup>107</sup> The chambers of commerce in old China were associations organized by merchants to protect their interests. They were first established around the end of the Qing Dynasty and generally consisted of members of trade associations and shopkeepers. They were often controlled by the big capitalists and local gentry, and some of them even had their own reactionary armed forces known as merchants' corps. After the founding of the People's Republic of China, the chambers of commerce were disbanded, and the federations of industry and commerce were established in their place. P. 165

<sup>108</sup> The All-China Federation of Cooperatives was established in July 1950. After the founding of the People's Republic of China, the number of cooperatives increased greatly, and they became a nationwide network of socialist, collective organizations formed by the working masses on a voluntary basis. At the grassroots level they included rural supply and marketing cooperatives, urban consumers' cooperatives, handicraft, fishery and transport cooperatives, etc. At and above the county and city level, joint or general cooperatives were established. P. 166

<sup>109</sup> The Second National Conference on Taxation, convened by the Ministry of Finance, had been held in Beijing from May 29 to June 17, 1950. In view of the new financial and economic situation and the need to readjust relations between the public and private sectors, the conference made some changes in tax categories, the list of taxable items, tax rates and methods of collection. P. 170

<sup>110</sup> The conference envisaged here was eventually held in Beijing from June 20 to 30, 1952, under the title of Preparatory Meeting of the All-China Federation of Industry and Commerce. It was attended by 413 representatives of industry and commerce from every province and city, as well as from the Inner Mongolia Autonomous Region and Tibet. There were 76 delegates from state-owned enterprises and from cooperatives, 319 from private enterprises, and 18 specially invited individuals. At this meeting the representatives established a Preparatory Committee for the All-China Federation of Industry and Commerce, to be headed by Chen Shutong. At a conference held in Beijing from October 23 to November 12, 1953, the All-China Federation of Industry and Commerce was formally established. P. 170

<sup>111</sup> The number forty was an approximation. At the time there were in fact only 39 administrative divisions in all: 29 provinces, 8 prefectures, the Inner Mongolia Autonomous Region and Tibet. The provinces were: Hebei, Shanxi, Pingyuan, Chahar, Suiyuan, Shaanxi, Gansu, Ningxia, Qinghai, Xinjiang, Liaodong, Liaoxi, Jilin, Songjiang, Heilongjiang, Rehe, Shandong, Zhejiang, Fujian, Taiwan, Henan, Hubei, Hunan, Jiangxi, Guangdong, Guangxi, Guizhou, Yunnan and Xikang. The prefectures were: northern and southern Jiangsu; northern and southern Anhui; eastern, western, southern and northern Sichuan. P. 170

<sup>112</sup> A campaign to combat the "three evils" of corruption, waste and bureaucratism was waged in government departments, army units and state-owned enterprises from December 1951 to October 1952. PP. 173, 185, 207, 212, 256, 294

<sup>113</sup> On April 29, 1951, the Government Administration Council had issued a Decision on Production and Construction in State-owned Industrial Enterprises for 1951. This decision read in part as follows: "A system of independent accounting will be introduced in state enterprises, and the People's Bank of China will centralize control of credit extended to them. They will be allowed to establish direct contact with the Bank, and the Bank will supervise their finances. Heads of these enterprises will be responsible for their profits and losses." P. 173

<sup>114</sup> On March 12, 1952, the Financial and Economic Commission of the Government Administration Council issued the Directive on the Price Ratios Between Cotton and Grain and the Public Grain Quotas for Growing Cotton in 1952. According to this directive, "In areas where the public grain quota for growing cotton is 11 per cent or more of the yield (i.e., if a peasant produces 15 kg. of ginned cotton per *mu* [1 *mu* = 1/15 hectare], he pays 1.65 kg. of grain), it will remain the same. If it is less than 11 per cent, it should be raised to 11 per cent." P. 174

<sup>115</sup> Shortly after the founding of the People's Republic of China, the "democratic reform" was designed to eliminate the feudal forces in factories, in mines and on the docks and to abolish the means by which workers were oppressed—the system of contracting for their work, surveillance on the job and daily searches when they left the workplace.

The campaign to increase production and practise economy was an emulation drive launched in factories, mines and transportation units throughout the country in the first half

- of 1952. P. 175
- <sup>116</sup> The eight-grade wage system was later instituted in state-owned factories and mines. P. 175
- <sup>117</sup> The preparation of a preliminary design is the first stage in designing a project to be built in accordance with an approved plan. For large and medium-sized construction projects there are usually two stages: the preliminary design and the blueprints. For major or special projects, an intermediate stage, the technical design, is added before the blueprints are drawn. The purpose of the preliminary design is to prepare provisional blueprints, draw up technical specifications and estimate the cost of the project. P. 179
- <sup>118</sup> This plant is now called the Northeast Light Alloy Processing Plant. P. 179
- <sup>119</sup> The Zibo Aluminum Oxide Factory is now called the Shandong Aluminum Factory. P. 179
- <sup>120</sup> A reference to cadres who had embezzled funds and capitalists who had committed the offence targeted in the movements against the “three evils” [see Note 112 above] and the “five evils” [see Note 121 below]. The investigation and exposure of their wrongdoing was called “fighting tigers”. P. 182
- <sup>121</sup> In 1952 a movement was launched against the “five evils” in capitalist industrial and commercial enterprises: bribery, tax evasion, theft of state property, cheating on government contracts and stealing economic information from the government. PP. 183, 207, 212, 256, 272, 294, 304
- <sup>122</sup> Zeng Shan (1899-1972), a native of Jiangxi Province, was Vice-Chairman of the East China Military and Administrative Committee and Chairman of the East China Financial and Economic Commission. P. 183
- <sup>123</sup> Wang Jiayang (1906-74), a native of Anhui Province, was Vice-Minister of Foreign Affairs of the Central People’s Government. P. 184
- <sup>124</sup> Cadres who, during the movement against the “three evils”, had been found guilty of corruption, waste or bureaucratism had resumed their work after making confessions and self-criticisms. Some of them, however, were ashamed to participate in the campaign to “fight tigers” because they themselves had not been fully forgiven by the people. It was said of them that they had “come downstairs” to join the movement but were still “wearing only their shorts”. P. 185
- <sup>125</sup> A reference to the Report on Economic and Financial Work delivered on October 25, 1951, at the Third Session of the First National Committee of the CPPCC. In this report Chen Yun had said: “If, under present circumstances, the fees paid by the government to private factories for certain manufactured goods are too low, at an appropriate time we should raise them to a reasonable level. In so doing we should take into account the legitimate profit of the factories, the ability of retailers and consumers to absorb a price rise and the need to keep the market stable. If, in other cases, the fees or the prices of raw materials are too high, they should be lowered.” P. 187
- <sup>126</sup> Before liberation, these were the three major publishing houses in China. P. 189
- <sup>127</sup> Kong Xiangxi (1880-1967), a native of Shanxi Province, served under the Kuomintang government as Minister of Finance, President of the Executive Yuan, President of the Central Bank and President of the Bank of China. P. 194
- <sup>128</sup> On September 18, 1931, the Japanese Kwantung Army in northeast China attacked the city of Shenyang. Shortly afterwards it launched an all-round offensive against the three provinces of Liaoning, Jilin and Heilongjiang. The Chinese troops at Shenyang and elsewhere in the northeast (the Northeastern Army) obeyed Chiang Kai-shek’s order not to resist, allowing the Japanese forces to rapidly occupy the three provinces. This event has become known as the “September 18th Incident”. PP. 198, 264

<sup>129</sup> The child apprentices were mostly girls employed in certain cotton mills and silk factories in old China. After being hired through a job contractor, they usually went through a training period of three to six months during which they received no wages. After that, they were required to work for three or four years, earning in most cases only half the wages of adult workers. Enduring hard labour and wretched living conditions, the child apprentices were cruelly oppressed and exploited. P. 202

<sup>130</sup> During the War of Liberation, some landlords and local tyrants in the liberated areas fled to Kuomintang areas. There they were organized by the KMT into “home-going contingents” or “home-going legions”—reactionary armed bands that attacked the liberated areas along with the KMT troops. They looted, burned, killed and committed all kinds of other atrocities. P. 202

<sup>131</sup> The Conference on Financial and Economic Work, convened by the Central Committee of the CPC, was held in Beijing from June to August 1953. The participants discussed the means of implementing the Party’s general line for the transition period during which the socialist transformation of industry, agriculture and commerce was to be accomplished, and they drew up China’s First Five-Year Plan for National Economic Development. PP. 204, 216

<sup>132</sup> In June 1952, in view of the overall stability of the market and prices, the People’s Bank of China directed its branches throughout the country to reduce interest rates for savings deposits by 20 per cent and for loans by 50 per cent. At the same time, they were to cease offering savings accounts whose value was adjusted for inflation or tied to the price index (see note 16 above). The lowering of interest rates was designed to reduce the cost of loans to industrial and commercial enterprises, to make it easier for peasants to obtain credit, to expand production, to stimulate the market and to meet the needs of large-scale economic development. P. 207

<sup>133</sup> On November 15, 1952, the Central Committee of the Chinese Communist Party issued a Directive on the Readjustment of Commerce. According to this directive, so long as the state sector and the cooperatives remained preponderant in the economy, private businessmen should be permitted to engage in retail business and to transport goods for sale. The directive included the following provisions. 1) The differences between wholesale and retail prices, and between prices in different regions and different seasons, were to be readjusted. The difference between wholesale and retail prices for everyday necessities was to be increased to 10 to 18 per cent. 2) Business would be divided between the state and private sectors. In big cities the number of state retail shops would be cut back. In counties and towns state stores would reduce the volume of their retail business. In cities state stores and cooperatives would handle fewer of the minor commodities. The rural supply and marketing cooperatives would purchase mainly grain, major cash crops, and major export products, leaving the less important local specialties to private dealers. Private businessmen would be allowed to purchase 20 to 30 per cent of grain and major cash crops. In retail business the proportion of the state and private sectors should still be 25 per cent and 75 per cent respectively, as stipulated at the National Conference on Financial Work held in June 1952.

In July 1954, because conditions had changed, the Party changed these policies. See “Tightening Control Over the Market and Transforming Private Commerce”, pp. 254-261 of this volume. PP. 208, 266

<sup>134</sup> A reference to the Circular on Revisions to the Tax System and the Date for Their Implementation, issued by the Financial and Economic Commission of the Government Administration Council on December 31, 1952. PP. 209, 220

<sup>135</sup> A reference to an editorial entitled “Work to Implement the Revised Tax System”, which had appeared in *People’s Daily* on December 31, 1952. The editorial read in part as follows, “The revised tax system maintains the principle of equality between publicly and privately owned enterprises with regard to taxes.... In accordance with the circular issued by

the Financial and Economic Commission of the Government Administration Council, the revised regulations for levying taxes on manufacturing, distributing, purchasing and marketing commodities and on exclusive selling rights will, no doubt, mainly add to the taxes of state stores and cooperatives. The circular also stipulates that cooperatives will no longer be exempt from income tax in the first year of their establishment or receive preferential treatment in the form of a remission of 20 per cent of the business tax. Thus state stores, cooperatives and private businesses will be treated equally.” P. 210

<sup>136</sup> The report in question, entitled “On Financial and Economic Problems”, had been delivered at the Fifteenth Meeting of the Central People’s Government Council on April 19, 1952. In this report Comrade Chen Yun had said, “Next year we shall complete the establishment of a four-level financial system. In 1950 there was only a central-level financial department. Last year we established local financial departments in greater administrative regions and began establishing provincial financial departments. In the latter half of this year we shall finish the work at provincial level and begin at the county level.” P. 213

<sup>137</sup> At this time the grain year, used for calculating the purchase, marketing, transportation and storage of grain nationwide, began on July 1 and ended on June 30 of the following year. Later it was changed to run from April 1 to March 31. PP. 217, 281

<sup>138</sup> On January 29, 1953, the Ministry of Grain decided that all such grain should be classified as “unmarketable commodities” rather than as “commodities on hand”. P. 218

<sup>139</sup> Deng Xiaoping (1904- ), a native of Sichuan Province, was at the time Vice-Premier of the Government Administration Council. P. 223

<sup>140</sup> Cf. “The System for Distributing Grain” p. 204 of this volume. P. 227

<sup>141</sup> By its Resolution on the Planned Purchase and Supply of Grain issued on October 16, 1953, the Central Committee of the CPC decided to prepare governments at all levels to begin implementing in early December a policy of state monopoly of the purchase and marketing of grain. At its 194th Meeting, held on November 19, the Government Administration Council adopted an Order on the Planned Purchase and Supply of Grain describing in detail how the policy was to be carried out. P. 228

<sup>142</sup> During the three years after the founding of the People’s Republic in 1949, the Chinese people, under the leadership of the Communist Party, worked hard to restore the national economy, which had been devastated by incessant wars and years of reactionary rule by the Kuomintang. As a result, by the end of 1952, China’s total output value had increased by 77.5 per cent over that of 1949 (industrial output value by 145 per cent and agricultural output value by 48.5 per cent). Output of major products such as steel, coal, electricity, crude oil, cement, grain, cotton and cotton yarn reached all-time highs, thus laying the foundation for the planned, large-scale economic development that began in 1953. PP. 229, 254

<sup>143</sup> The residue left after oil is expressed from seeds is formed into large, flat “oil cakes”, which are used for animal feed and for fertilizer. P. 230

<sup>144</sup> Swine measles is a disease caused by the larvae of certain tapeworms, which, upon maturation, produce trichinosis in human beings. P. 234

<sup>145</sup> In 1954 the Province of Suiyuan was incorporated into the Inner Mongolia Autonomous Region. P. 235

<sup>146</sup> The cities directly under the central government were Beijing, Tianjin, Shanghai, Shenyang, Lüda, Anshan, Fushun, Benxi, Changchun, Harbin, Xi’an, Wuhan, Guangzhou and Chongqing.

The industrial and mining areas included, among others, the Zibo Industrial Mining Area in Shandong Province, the Jiaozuo Industrial and Mining Area in Henan Province, the Fengfeng Mining Area in Hebei Province, the Shiguaigou Mining Area in Suiyuan Province, the Shuangyashan Mining Area in Songjiang Province and the Yumen Oil Deposit Area in Gansu Province.

In 1953 China had 30 provinces, but the four cities of Harbin, Xi'an, Wuhan and Guangzhou (capitals of Songjiang, Shannxi, Hubei and Guangdong provinces respectively) were considered as municipalities directly under the central government. P. 238

<sup>147</sup> Zhang Guotao (1897-1979), a native of Jiangxi Province, attended the First National Congress of the Chinese Communist Party in 1921. Later he served as member of the Central Committee, of its Political Bureau and of the Bureau's Standing Committee. In 1931 he became secretary of the Hubei-Henan-Anhui Sub-bureau of the Central Committee and Vice-Chairman of the Provisional Central Government of the Chinese Soviet Republic. In June 1935, when the First and Fourth Front Armies of the Red Army joined forces in Maogong, Sichuan Province, he became general political commissar of the Red Army. He opposed the Central Committee's decision that the Red Army should continue its march north. He worked to split the Party and the Red Army, and set up a separate "central committee". In June 1936, having been forced to dissolve this second "central committee", he joined the Second and Fourth Front Armies of the Red Army on their march north, arriving in northern Shaanxi in December. In September 1937 he became Vice-Chairman and later Acting Chairman of the Government of the Shaanxi-Gansu-Ningxia Border Region. In April 1938, having gone to Xi'an to participate in a traditional ceremony, he fled to Wuhan, where he joined the Kuomintang secret police. He thus became a renegade to the Chinese revolution and was subsequently expelled from the Party. He died in Canada in 1979.

P. 240

<sup>148</sup> At this session Comrade Liu Shaoqi delivered a report on behalf of the Political Bureau of the Central Committee. Comrades Zhu De, Zhou Enlai, Chen Yun, Deng Xiaoping and others also spoke. The participants exposed and criticized anti-Party activities that had been carried out by Gao Gang and Rao Shushi before, during and after the National Conference on Financial and Economic Work held in the summer of 1953 and the National Conference on Organizational Work held the following fall. The Resolution on Strengthening Party Unity, drafted at Comrade Mao Zedong's suggestion, was adopted unanimously. P. 240

<sup>149</sup> Qu Qiubai (1899-1935), a native of Jiangsu Province, joined the Communist Party in 1922 and was one of its chief leaders in the early years. On August 7, 1927, at the crucial moment after the failure of the Great Revolution, he and Li Weihan presided over an emergency meeting of the Central Committee. At this meeting he was elected to the Standing Committee of the Political Bureau of the provisional central leadership and charged with handling its day-to-day work. From November 1927 to April 1928 he made the "Left" error of putschism. In September 1930 he chaired the Third Plenary Session of the Sixth CPC Central Committee, which corrected Li Lisan's "Left" adventurist line. In 1931, at the Fourth Plenary Session of the Sixth CPC Central Committee, he was attacked by Wang Ming and other exponents of "Left" dogmatism and sectarianism and was pushed out of the Political Bureau. Arrested by the Kuomintang when he was on his way from Jiangxi to Fujian in February 1935, he died a martyr in Changting, Fujian Province, on June 18 of that year. During the cultural revolution he was slandered as a renegade. The Central Committee restored his good name in October 1980. P. 241

<sup>150</sup> The Seventh National Congress of the Chinese Communist Party was held in Yan'an from April 23 to June 11, 1945. Mao Zedong made a political report entitled "On coalition Government", Zhu De delivered a military report entitled "The Battle Front in the Liberated Areas", Liu Shaoqi presented a Report on the Revision of the Party Constitution and Zhou Enlai made an important speech on the united front. The Congress decided that the line of the Party would be to "mobilize the masses and expand the people's forces so that, under the leadership of the Party, they would defeat the Japanese aggressors, liberate the whole people and build a new-democratic China". It also adopted a new Party Constitution and elected a new Central Committee. The new Constitution designated Mao Zedong Thought—the integration of the theory of Marxism-Leninism with the practice of the Chinese revolution

—as the guide for the work of the Chinese Communist Party. The Congress represented a victory for Party unity. P. 243

<sup>151</sup> A reference to the First Five-Year Plan for the Development of the National Economy of the People's Republic of China from 1953 to 1957. Work on this plan began in 1951, and after five revisions it was formally adopted by the Second Session of the First National People's Congress, held in July 1955. The plan was successfully carried out. By the end of 1956 the socialist transformation of agriculture, handicraft industry, and private industry and commerce had been basically accomplished. By the end of 1957 every construction project envisaged in the plan had been completed, and many targets had been exceeded. This laid a foundation for the country's industrialization and did a great deal to raise the people's living standards. PP. 244, 262, 273, 280, 308

<sup>152</sup> Under indirect planning, as opposed to mandatory planning, the state imposes no production quotas on local enterprises but issues policy statements and decrees and uses economic levers to encourage fulfilment of the plan. P. 244

<sup>153</sup> This figure was later revised to 14.7 per cent. The annual increase actually achieved was 18 per cent. P. 244

<sup>154</sup> The number of these projects was later increased to 156. P. 245

<sup>155</sup> The number of these projects was later increased to 694.

"Above-norm" projects were projects for the construction of new facilities, or for the restoration or renovation of existing ones, for which total investment equalled or exceeded the norm set by the state for such construction. While plans for "below-norm" projects were examined and approved by local authorities, those for above-norm projects, which were generally key projects for the state, had to be examined and approved by the central government. During the period of the First Five-Year Plan, this was the way in which the state controlled investment in capital construction.

At the time the investment norm for construction in the iron and steel industry and the automobile, tractor, shipbuilding and railway-locomotive industries was ¥10 million; in the nonferrous metals, chemicals and cement industries, ¥6 million; in the coal, petroleum and textile industries, ¥5 million; and in the rubber, paper, sugar, cigarette and pharmaceutical industries, ¥4 million. P. 245

<sup>156</sup> The planned annual increase of 5 per cent was later revised to 4.3 per cent. The increase actually achieved was 4.5 per cent. P. 245

<sup>157</sup> This figure was later revised to ¥32.6 trillion, representing only 7.6 per cent of total expenditure for economic development in the five years. Actual investment in agriculture totalled ¥41.9 trillion, but because the state's total expenditure also increased, the percentage remained the same. P. 248

<sup>158</sup> These percentages were later revised to 11.2 and 88.8 per cent. In actual practice, the proportion turned out to be 15 and 85 per cent. P. 248

<sup>159</sup> The First and Second Ministries of the Machine-building Industry were established in August 1952. In February 1958 the First and Second Ministries of the Machine-building Industry and the Ministry of the Electrical Equipment Industry were merged into the First Ministry of the Machine-building Industry. In May 1982 the First Ministry of the Machine-building Industry, the Ministry of the Agricultural Machinery Industry, the State Administration for Meters and Instruments Industry and the State Administration for Complete Sets of Machinery and Equipment were combined as the Ministry of the Machine-building Industry. P. 251

<sup>160</sup> This figure was later revised to ¥248.5 trillion. In implementation the figure rose to ¥250.3 trillion. P. 251

<sup>161</sup> This figure was later revised to about 49.8 billion yuan. In practice it rose to 52.15 billion. The actual total purchasing power for 1957 was 488.2 trillion yuan. P. 252

<sup>162</sup> Starting in September 1952, Comrade Mao Zedong often discussed the Party's general line for the transition period. In order to make it known to the entire nation, the Propaganda Department of the CPC Central Committee prepared a document titled "Outline for the Study and Publicity of the Party's General Line for the Transition Period—Mobilizing All Forces to Make China a Great Socialist State". This document was revised by Comrade Mao Zedong, approved by the Central Committee, and distributed nationwide on December 28, 1953. The Party's line was articulated as follows: "The period between the founding of the People's Republic of China and the basic completion of socialist transformation is one of transition. The Party's general line or general task for the transition period is to accomplish step by step and over a fairly long period of time the country's socialist industrialization and the socialist transformation of agriculture, handicrafts and capitalist industry and commerce. This general line is the beacon illuminating all our work, and wherever we deviate from it, we shall make Right or 'Left' mistakes." PP. 256, 271

<sup>163</sup> A year later all grain supplies were rationed in the cities. Cf. Provisional Measures for Rationing Grain Supplies in Cities and Towns, promulgated by the State Council of the People's Republic of China on August 25, 1955. P. 266

<sup>164</sup> On November 4, 1983, considering that there had been a sufficient supply of textile products for a few years, the State Council decided that rationing would end on December 1 of that year. P. 266

<sup>165</sup> In the early 1960s when the country was experiencing serious economic difficulty, in certain areas where there was a shortage of meat and fat they too were rationed. P. 266

<sup>166</sup> This ministry was abolished in May 1956. P. 271

<sup>167</sup> Certain private merchants would buy goods wholesale from state stores and sell them retail at higher prices fixed or approved by the state. They were also allowed to buy the same commodities at free markets. This was the elementary form of state capitalism adopted by China in the period of the socialist transformation of capitalist commerce. P. 275

<sup>168</sup> The Ministry of the Fuel Industry was established in October 1949 and abolished in July 1955. P. 275

<sup>169</sup> This ministry was established in April 1955 and abolished in May 1956. P. 276

<sup>170</sup> Under the "one whip" method, government departments in charge of the different branches of industry and commerce controlled the supply of materials to private industrial enterprises and the production and marketing of their products. P. 276

<sup>171</sup> The "three quota" system was described in the document Provisional Methods for Instituting State Purchase and Marketing of Grain in the Countryside, issued by the State Council of the People's Republic of China on August 25, 1955. P. 280

<sup>172</sup> The Shanghai Pen and Pencil Company was a "special company" set up in March 1955. A few months later, the entire industry had been reorganized. In January 1956 the company was converted into a joint state-private enterprise. P. 288

<sup>173</sup> Cf. V.I. Lenin, "Can Bolsheviks Retain State Power?", *Collected Works*, Progress Publishers, Moscow, 1964, Vol. 26, pp. 106-08. P. 289

<sup>174</sup> After the conversion of capitalist industrial and commercial enterprises into joint state-private enterprises, the state paid the national capitalists a fixed annual rate of interest (generally 5 per cent) on the value of their assets, as a means of compensating them for the means of production they owned. These payments were made irrespective of the enterprises' profits or losses. The system was instituted in 1956 and discontinued in September 1966. PP. 289, 304, 310, 322, 331

<sup>175</sup> According to this method, the profit of a private enterprise was divided into four parts: 1) income tax paid to the state according to graduated rates (generally amounting to about 30 per cent of the total profit); 2) accumulation funds retained by the enterprise (about 10

to 30 per cent); 3) workers' welfare funds (about 5 to 15 per cent); and 4) dividends for the capitalists, including pay given to the board of directors, the factory director and senior managers (about 25 per cent). PP. 290, 305

<sup>176</sup> In old China, the four banks in the North were the Salt Industry Bank, the Gold City Bank, the Continental Bank and the South-Central Bank, which together constituted a financial bloc in the North. The four banks in the South were the Xingye Bank of Zhejiang, the Industrial Bank of Zhejiang, and the Commercial Savings Bank and Xinhua Trust Savings Bank in Shanghai, which together formed a financial bloc in the South. In 1952 these eight banks were merged with others to become joint state-private banks under the People's Bank of China. P. 290

<sup>177</sup> In October 1955 both textile companies mentioned were converted into joint state-private enterprises. P. 293

<sup>178</sup> A reference to the Second Meeting of the First Executive Committee of the All-China Federation of Industry and Commerce, held in Beijing from November 1 to 21, 1955. Vice-Premiers Chen Yun and Chen Yi attended the meeting and delivered speeches. The meeting helped industrialists and businessmen across the country to accept the socialist transformation. PP. 295, 322

<sup>179</sup> The restaurant was opened in 1903. P. 298

<sup>180</sup> The China Democratic National Construction Association was founded in December 1945 as a political party composed mainly of national industrialists and businessmen and of intellectuals associated with them. In 1949 it sent delegates to the First Plenary Session of the Chinese People's Political Consultative Conference, sponsored by the Communist Party. Since the founding of the People's Republic of China, it has accepted the leadership of the Communist Party and has been one of the democratic parties participating in socialist revolution and construction. PP. 304, 315, 327

<sup>181</sup> A reference to the Decision on Matters Relating to the Socialist Transformation of Private Industry, Commerce and Handicrafts, adopted at the Twenty-fourth Meeting of the State Council on February 8, 1956. P. 311

<sup>182</sup> A reference to the State Council's Regulations on Some Major Problems Relating to the Inventory and Assessment of Assets in Converting Private Enterprises into Joint State-Private Enterprises, adopted at its Twenty-fourth Meeting on February 8, 1956. P. 313

<sup>183</sup> A reference to the State Council's Regulations on Introducing Payment of a Fixed Rate of Interest in Joint State-Private Enterprises, adopted at its Twenty-fourth Meeting on February 8, 1956. P. 314

<sup>184</sup> The Ministry for the Purchase of Agricultural Products was established in July of 1955 and dissolved in November of the following year. PP. 324, 329

<sup>185</sup> In fact, because of the limited variety of goods available at the time, selective purchasing was not put into practice. PP. 325, 331

<sup>186</sup> This refers to a meeting convened by the State Council from July 6 to 9, 1956. It was attended by leading members of the All-China Federation of Industry and Commerce, the Democratic National Construction Association and certain government departments. They discussed many issues related to the transformation of private industry and commerce, such as the relations between representatives of the public and private sectors, personnel arrangements, wages and welfare, fixed shares and interest and arrangements for small merchants and peddlers. At the end of the meeting Comrade Chen Yun, Vice-Premier of the State Council, made a speech on the way to create sound relations between the public and private sectors. P. 328

<sup>187</sup> The Yan'an New Market was established outside the south gate of Yan'an County during the War of Resistance Against Japan. P. 331

## 图书在版编目 ( CIP ) 数据

陈云文选 第二卷: 英文 / 陈云著. —北京:

外文出版社, 1997

ISBN 7-119-01693-8

I. 陈… II. 陈… III. 陈云 - 著作 - 选集 - 英文

IV. D2-0

中国版本图书馆 CIP 数据核字 (96) 第 25347 号

责任编辑 吴灿飞 杨春燕

封面设计 唐 宇

## 陈云文选

### 第二卷

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© 外文出版社

外文出版社出版

( 中国北京百万庄大街 24 号 )

邮政编码 100037

北京外文印刷厂印刷

中国国际图书贸易总公司发行

( 中国北京车公庄西路 35 号 )

北京邮政信箱第 399 号 邮政编码 100044

1997 年 ( 小 16 开 ) 第 1 版

( 英 )

ISBN 7 - 119 - 01693 - 8/D · 108 ( 外 )

03680 ( 平 )

3-E-2052PB

ISBN 7-119-01693-8



9 787119 016931 >

3-E-2052 PB